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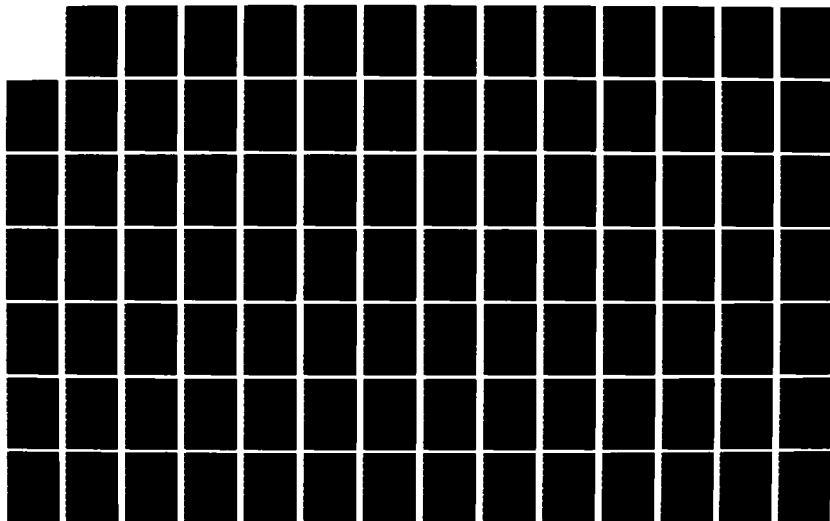
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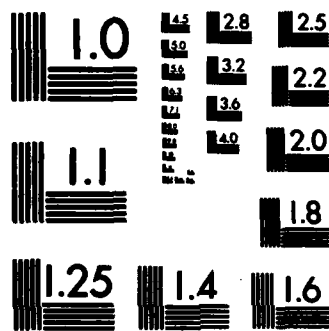
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UNITED STATES SECURITY ASSISTANCE
TO ISRAEL

Patrick J. Madden, GS-12
Paul D. Woods, Captain, USAF

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Security assistance, an outward sign of the long-standing special relationship between the U.S. and Israel, is examined in light of the impact of defense spending on the Israeli economy. The threat to Israel's security is traced from its founding through the 1973 Arab-Israeli War, a political and economic turning point, at which time defense spending increased abruptly. Since 1973, disproportionate amounts of resources relative to its economy have been allocated to expanding and modernizing the Israeli Defense Forces, resulting in an increased financial dependence on the U.S. Security assistance to Israel in the form of Foreign Military Sales credits, Economic Support Funds, and Peacekeeping Operations is outlined as it evolved in four distinct phases over the 35 years since Israel's independence. Substantial portions of the assistance have been extended on a nonreimbursable basis. Possible repayment problems are described in relation to Israel's external debt and future military requirements. Finally, the special relationship between the U.S. and Israel is examined in such areas as U.S. commitment, special privileges granted to Israel, political leverage, and U.S. relations with Arab states.

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UNITED STATES SECURITY ASSISTANCE
TO ISRAEL

A Thesis

Presented to the Faculty of the School of Systems and Logistics
of the Air Force Institute of Technology
Air University

In Partial Fulfillment of the Requirements for the
Degree of Master of Science in Logistics Management

By

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September 1983

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MASTER OF SCIENCE IN LOGISTICS MANAGEMENT

DATE: 28 September 1983


COMMITTEE CHAIRMAN

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CHAPTER I

INTRODUCTION

Overview

Although the United States (U.S.) and Israel are not mutually aligned through any treaty or formal agreement, a special relationship has developed between the two countries. The uniqueness of this relationship has been described as follows: "About the United States and Israel one might say that seldom in the history of international relations has such a world power been involved so intensely for so long with such a small power [59:vii]." Nowhere is this special relationship more evident than in the area of military and economic assistance provided by the U.S. In fact, from 1948 to the present over 25 billion dollars of military, economic, and supporting assistance has been furnished to Israel (89:1). This assistance has allowed Israel to survive as an independent nation in spite of numerous threats to its existence. Today Israel has become dependent on the U.S. for obtaining the military equipment and supplies needed to maintain its armed forces in order to meet the threats to its very existence. This dependence and the need to maintain a relatively large military force are major factors that have determined and will continue to determine Israel's ability to survive as a sovereign nation.

Problem Statement

Since 1948 Israel has received billions of dollars in security assistance from the U.S. which have significantly enhanced Israel's ability to survive in an extremely hostile environment.¹ However, this massive inflow of American aid has not eliminated the threats to Israel or Israel's need for further assistance. Each year, Israel depends on and receives substantial amounts of U.S. security assistance in order to maintain a military force in constant readiness. The growing dependence of Israel on the U.S. coupled with a changing American foreign policy toward the Middle Eastern region may alter or strain the long-time special security assistance relationship between the two countries.

Justification

Both the U.S. government and the American people have a long-standing interest in Israel. The affinity between the U.S. and Israel antedates Israel's independence (55:364). In fact, every American administration since President Harry S. Truman has issued statements indicating support for Israel. President Truman was instrumental in gaining passage of the United Nations (U.N.) partition plan which led to the creation of Israel and it was President Truman who was the first to recognize Israel as a nation on

¹A glossary of terms and their definitions is provided in Appendix A.

May 14, 1948 (17:30-31). More recently, President James E. Carter stated: "The survival of Israel is not a political issue. It is a moral imperative [16:220]." He later restated his position as follows: "There will be no change in my basic commitment that the issue of the very security and survival of the state of Israel is not negotiable [16:220]." The most recent administration's support was voiced in a letter from President Ronald Reagan to Senator Howard H. Baker, Jr., Senate Majority Leader, part of which said:

I remain fully committed to protecting Israel's security and to preserving Israel's ability to defend against any combination of potentially hostile forces in the region. We will continue to make available to Israel the military equipment it requires to defend its land and people . . . [54:5].

With each succeeding administration since 1948 supporting Israel, the U.S. body politic as a whole will become more and more concerned with the relationship between Israel and the U.S. as time passes. This concern is a natural outgrowth of the heartfelt sympathy and deep sense of responsibility among the American people for the state of Israel (55:365). However, there are fears concerning the future physical and economic development of this small country (17:124). Israel's industry and resources thus far have not proved themselves able to support a solvent economy (16:217). Therefore, the economic future of Israel is obscured with uncertainty. The heavy burden of defense coupled with the lack of natural resources have placed stresses

on the economy of Israel that do not exist in other countries. Open conflict in the area continues at present in Lebanon; however, Lebanon is only a symptom and not a cause of the precarious situation in which Israel finds itself. This thesis is justified on the basis that it verifies the economic and political threat to the state of Israel and examines in detail U.S. assistance provided to help Israel with solving both security and economic problems.

Purpose of Research

The purpose of this thesis is to provide the historical background of the special security assistance relationship between the United States and Israel and to note the impact that this relationship has had on the financial resources and economy of Israel.

Research Questions

The overall question this research will attempt to answer is: What effect has security assistance provided by the U.S. had on Israel's defense posture and economic stability? In the course of answering this primary research question several subordinate, but related questions will be addressed. These questions are:

1. Is there a serious threat to the continued survival of Israel?
2. Has security assistance provided by the U.S. to Israel been adequate?

3. Has Israel been economically capable of providing for its own defense?

4. What is the current status of the U.S. commitment to Israel?

Data Sources

There is a large volume of both qualitative and quantitative information available concerning the country of Israel and U.S. aid to Israel. The researchers conducted an extensive data search and review of material which can be subdivided into five general categories: (1) professional military studies, (2) published civilian studies, (3) current periodicals, (4) professional journals, and (5) published and unpublished government documents.

Professional Military Studies. A Department of Defense (DOD) literature search was conducted through the Defense Logistics Studies Information Exchange (DLSIE) and the Defense Technical Information Center (DTIC) to determine what studies on Israel were available. Although several professional studies had been completed, relatively few directly addressed security assistance to Israel. However, two professional military studies did provide significant contributions to the research effort. "Foreign Military Sales to Israel" by Captains Richard M. O'Connor and William E. Schepens, provided excellent information on Foreign Military Sales (FMS) to Israel through 1978. In fact, the present researchers are deeply indebted to these authors for

the insight they provided into the subject. Another study, "American Arms Transfers to Israel" by Lieutenant Colonel George R. Dawson dated 9 March 1970 provided good background material on arms transfers through 1969. Both of these studies are well documented assessments of portions of the security assistance relationship between the U.S. and Israel. However, neither specifically addresses the impact U.S. security assistance has had on the Israeli economy and both are dated. Because both were written prior to the reconciliation between Egypt and Israel, neither covers aid resulting from the 1979 Egyptian-Israeli Peace Treaty which marked a significant change in the special relationship between the U.S. and Israel.

Published Civilian Sector Studies. Numerous civilian studies covering Israeli history, society, and politics have been published. These studies provide excellent background information on the events surrounding the formation of Israel as a nation, current events within the country, and future problems facing Israel. The studies by Nyrop, Sachar, Safran, Wilson, and the information contained in the Encyclopedia Judaica were especially helpful because together they provided a comprehensive picture of past and present Israel. Other studies provided detailed documentation of particular events in Israeli history. In this area, the studies by Bar-Simon-Tov, Bell, Blitzler, Dupuy, and Handel provided well documented, detailed analyses of the five

wars which Israel has been involved in as well as Israel's general military development. Studies by Kanovsky and Kubursi provided specific analyses of the impact of particular events on the Israeli economy. Finally, studies by McLaurin, Crabb, and Mroz provided varied analyses of past and present Israeli foreign policy. These and other sources are listed in the bibliography.

Current Periodicals. Information gathered from current periodicals was used to augment professional military and civilian studies. Previous research was found to be either outdated or else did not address the specific relationship between the defense and economy of Israel which generates the need for U.S. security assistance. Several events have occurred too recently to have been covered in prior studies on security assistance including the Israeli entry into Lebanon in June 1982 and the U.S. reaction to the occupation of the southern part of Lebanon by the Israeli army. Several periodicals including Newsweek, Time, The Wall Street Journal, The Washington Post, and U.S. News and World Report were excellent sources of current information from a U.S. perspective concerning the relationship between the U.S. and Israel and Israel's requirements for and use of American aid. International periodicals including The Middle East, Israeli Digest, Palestine Digest, MERIP Reports, and Midstream served as diversified sources of information on current military, economic, and political events in Israel and the Middle East in general.

Professional Journals. Background information and more detailed data used in the thesis were drawn from American-Arab Affairs, Foreign Affairs, International Journal of Middle East Studies, Middle East International, The Economist, The Israel Economist, The Jerusalem Quarterly, and other professional journals identified in the bibliography.

Published and Unpublished Government Documents. Documents from both the governments of the U.S. and Israel provided numerous sources of official information on U.S. security assistance, U.S.-Israeli relations, and economic indicators in Israel.

The U.S. Congress publishes documentation containing transcripts of hearings before both Senate and House committees which deal with aid to Israel. These publications along with the Congressional Record and the Congressional Quarterly Almanac gave a comprehensive summary of all security assistance to Israel to date as well as the reasons for extending such assistance. As for the future, the FY1984 Congressional Presentation Document (CPD) outlined the proposed assistance requested by the Reagan administration for fiscal year 1984.

The Defense Security Assistance Agency (DSAA) publication Foreign Military Sales and Military Assistance Facts, the General Accounting Office (GAO) publications on both economic assistance to Israel and U.S. security

assistance programs, and the U.S. Arms Control and Disarmament Agency report World Military Expenditures and Arms Trade all provided excellent sources for the magnitude of security assistance to Israel and some information on the effects of this aid on Israel.

The U.S. Department of State Bulletin provided a summary of official positions and analyses of statements made by key foreign policy decision makers, significant events in U.S.-Israeli relations such as the Camp David Accords, and official administration press releases on foreign policy.

Several documents from the government of Israel proved excellent sources for official information on economic conditions, defense expenditures, external foreign debt, and general economic indicators in Israel. The Bank of Israel Annual Reports, The Bank of Israel Economic Review, and the Ministry of Finance Budget in Brief represent the publications used in the research effort.

Methodology

The extensive amount of both published and unpublished material written about Israel, the U.S.-Israeli relationship, and U.S. aid to Israel served as the main sources of information for the research. Since the primary purpose of the thesis is to provide the background of the special security assistance relationship and the effects this relationship has had on Israel, an historical synthesis of the material on the subject was considered to be the best

approach. Information was selected from the material identified above according to its relevance to the research questions and purpose of the study. The reliability of the information was determined by the best judgment of the researchers and was based on comparison of multiple sources for consistency.

Scope and Limitations

This thesis is limited to assimilating information on U.S. security assistance to Israel since 1948. The main emphasis is on assistance provided since 1978; however, sufficient background information on all assistance since 1948 is presented in the thesis to give a complete picture of the overall size, growth, and impact of U.S. security assistance to Israel.

Information contained in this study is current as to what was published or otherwise available as of 1 August 1983. However, due to the long lead-time usually required for analysis and publication of many indicators dealing with the Israeli economy, data in this area may be less current as it is constantly being updated and refined as the data becomes available. Numerous sources were used to obtain information about the Israeli economy in an attempt to verify the accuracy of the data. Assumptions by the various authors in such areas as exchange rates between Israeli and American currency may have some affect on the data. Since the intent in this area was to show the impact of defense

expenditures on the Israeli economy, some inconsistency in the data did not present a serious limitation to this research and such inconsistencies are noted as they occur in the data presented.

Plan of Presentation

Chapter I: Introduction. This chapter states the problem and justification for the thesis, provides a brief review of existing data and the sources, outlines the purpose, establishes the scope and limitations of the research questions to be answered, and explains the methodology used to answer the research questions.

Chapter II: The Establishment of the State of Israel and Threats to Its Survival. This chapter provides the reader with a brief review of the events surrounding the creation of Israel. Beginning with the activities of the Zionists Movement in the late 1800s, it covers the immigration of Jewish settlers into Palestine during and following World War II and the United Nations partition plan which laid the foundation for Israel's declaration of independence on May 14, 1948. Next the chapter traces the development of the Israeli Defense Forces (IDF) by concentrating on the five wars in which Israel was engaged between 1948 and 1973. The chapter explains how Israel has been forced to turn more and more to the U.S. for aid to obtain the military equipment and supplies needed to maintain its armed

forces. The chapter ends with the October 1973 Yom Kippur War which left Israel dependent on continued American support.

Chapter III: Security Assistance. This chapter contains a summary of all U.S. security assistance extended to Israel since 1948. The assistance is divided into Foreign Military Sales (FMS), Economic Support Funds (ESF), and Peacekeeping Operations (PKO) with sufficient historical background provided to explain the purpose of the assistance and the reasons for its rapid escalation since 1967. The data is divided into periods that represent groupings of years during which events marked a significant change in U.S. policy on assistance.

Chapter IV: The Impact of Defense Spending on Israel's Economy. This chapter provides a short history of the economic development of Israel before examining the impact of defense spending on the economy. Israel's high rate of inflation, large external debt, and increasing dependence on the U.S. are identified as some of the problems Israel will have to solve in order to stabilize its economy.

Chapter V: Current United States-Israeli Relations. This chapter examines the U.S. commitment to Israel demonstrated through financial aid and other special considerations extended by the U.S. in spite of political differences between the two countries regarding matters in the Middle East region.

Chapter VI: Conclusions and Recommendations. This chapter answers the research questions, states the

researcher's conclusions drawn from the information in the preceding chapters, and includes recommendations for further study.

CHAPTER II

THE ESTABLISHMENT OF THE STATE OF ISRAEL AND THREATS TO ITS SURVIVAL

Overview

The study of U.S. security assistance to Israel would not be complete without an understanding of why the state of Israel was created and how its survival has been threatened from the beginning. Only after the background has been understood, can the need for American aid and the magnitude of this assistance be adequately analyzed. This chapter will examine the circumstances surrounding Israel's creation and then address the threats, as manifested in five wars, to Israel's existence. An examination of the wars will indicate that because of constant threat Israel has been compelled to develop a substantial military force. Money and arms for military requirements were originally obtained from several countries. However, as the cost of each succeeding war increased and as the Arabs began to use oil as a political weapon to limit support from Western Europe, Israel turned to the U.S. for increasingly greater assistance. A history of the wars will illustrate the growing dependency of Israel on the U.S. for aid in order to maintain a society that must contend with a prolonged conflict described as follows:

An irrepressible conflict has arisen between two national communities within the narrow bounds of one small country [Palestine]. About 1,000,000 Arabs are in strife, open or latent, with some 400,000 Jews. There is no common ground between them. . . . The conflict was inherent in the situation from the outset. . . [and] the conflict has grown steadily more bitter. . . . The intensification of the conflict will continue. . . it seems probable that the situation, bad as it now is, will grow worse. The conflict will go on, the gulf between the Arabs and the Jews will widen [11:403].

The above quotation, with minor historical changes, just as accurately describes the conditions in the Middle East in 1983 as it did when it was originally issued over 40 years ago by a royal British commission appointed to investigate the causes of violence and political upheaval in Palestine. To fully understand the deep-rooted differences between the Arabs and the Jews requires a knowledge of the events that led to the establishment of the state of Israel as a Jewish national homeland on May 14, 1948.

The Zionist Movement

The search for a Jewish homeland dates back to the Old Testament, and emerged in the form of the Zionist Movement toward the end of the nineteenth century. The Zionist Movement was essentially a political movement whose ultimate goal was the creation of a Jewish national state in Palestine. During the late 1800s and early 1900s, there was intense and recurrent anti-Semitism in Europe. These sentiments resulted in a renewed search for a Jewish homeland and caused Zionist organizations to encourage the acquisition of land in Palestine by Jewish settlers.

At this time in history, 1914-1918, the area of Palestine was controlled by the Ottoman Empire of Turkey. Great Britain became engaged in war with Turkey due to the outbreak of World War I and Turkey's subsequent formal alignment with Germany. Britain sought and received Arab support against Turkey during the war. On June 5, 1916 the Arabs in Palestine led by Sharif Husagan launched the Arab Revolt against Turkey. During the course of World War I, Prime Minister David Lloyd George and Foreign Secretary Arthur James Balfour thought that negotiations with the British Zionists could be of potential value to the pursuit of British war aims. In an attempt to gain Jewish support for the Allied cause throughout Europe, Secretary Balfour in an open letter to Lord Lionel Walter Rothschild, President of the British Zionist Federation, on November 2, 1917 announced the Balfour Declaration (45:30). The declaration was a landmark in the realization of Zionist objectives because in it the British apparently accepted the Zionist goal of a Jewish homeland and promised to support it. The Balfour Declaration stated:

His Majesty's Government view with favor the establishment in Palestine of a National Home for the Jewish people, and will use their best endeavors to facilitate the achievement of this objective, it being clearly understood that nothing shall be done which may prejudice the civil and religious rights of existing non-Jewish communities in Palestine, or the rights and political status enjoyed by Jews in any other country [70:9].

It bears repeating that to the Zionist the Balfour Declaration was a significant step forward in the achievement

of their goals. After World War I, Jewish immigration into Palestine continued and was accelerated by the emergence of Nazism in Germany. One of Hitler's stated goals was the "final solution" of the Jewish problem by the elimination of the Jewish population in Europe. The Holocaust that followed resulted in millions of Jews being killed in concentration camps. Many of those who managed to escape ultimately sought refuge in Palestine (11:405).

British rule over Palestine was strengthened in 1922 by a League of Nations Mandate. This formally placed Palestine under the legal jurisdiction of the international community and directed the British administration to take the necessary actions which would ultimately lead to self-government. The terms of the Mandate also specified that Great Britain was to implement the provisions of the Balfour Declaration. During the period between World War I and World War II, the area of Palestine was continually marred by conflict between the Zionists and Arabs--both of whom opposed British policies. The Arabs were becoming increasingly concerned about the Jewish settlement in the region and blamed Great Britain for encouraging Zionist goals at the expense of the indigenous Arabs. At the same time, Hitler's persecution of European Jews reinforced the Zionist's beliefs that they must have access to Palestine and that Jews in all countries would be subject to discrimination and persecution until a new Jewish nation was established (70:38).

As the decade of the 1930s progressed, Great Britain was caught between the two sides of the Palestine issue and was also becoming more concerned with the growing threat of war in Europe. The British failed on numerous occasions to find some basis of agreement between the Zionists and Arabs on the Palestine issue. Finally, on May 17, 1939, Great Britain issued a White Paper on the Palestine problem which was designed to resolve the issue. The White Paper called for three major restrictions on future Jewish settlement of the area. First, it called for a substantial reduction in the level of Jewish immigration into Palestine. Secondly, Jewish immigration was to cease completely after five years. Thirdly, the transfer of land from Arabic to Jewish settlers was to be sharply curtailed. The plan was rejected by both the Zionists and the Arabs. The Zionists insisted on unrestricted immigration into Palestine as an escape from Hitler's oppression of the Jewish population of Europe. As a result, Jewish groups continued to enter Palestine after the issuance of the White Paper. This extra-legal immigration was resisted by both the Arabs and British and the triangle of conflict in Palestine involving British, Jewish, and Arab forces continued to escalate in intensity (11:406).

With the outbreak of World War II, however, the Palestine problem was relegated by the British to a subordinate issue. Although overshadowed by World War II, the conflict continued and reemerged as an international issue following

the war. Faced with an unsolvable problem in Palestine and greatly weakened by World War II, Great Britain decided to relinquish the Mandate over Palestine and withdraw its troops from the area. In 1947 the British government served notice on the newly formed United Nations that the Mandate would be terminated (71:3).

The United Nations immediately established an eleven member Special Committee on Palestine (known as the UNSCOP) to investigate all aspects of the problem and submit a report to the General Assembly on how it should be resolved (94:108). Upon the committee's formation, the area of Palestine geographically appeared as shown in Figure 1 with the Jewish and Arab settlements not separated or defined in any manner. As a solution, the UNSCOP proposed the partition of the area into Jewish and Arab states as shown in Figure 2. The theory behind the partition was that because both states were small and not economically viable as separate entities they would therefore be forced to maintain close economic and other ties with each other in order to survive. The months prior to the General Assembly's final vote on the plan saw intense Zionist activities to gather enough votes to ensure its passage. American Zionist activities to gain support for the partition plan reached all the way to President Harry S. Truman. It was President Truman who was "largely responsible for bringing the state of Israel into being through the support that he gave the partition plan [94:148]." President Truman, influenced by both domestic

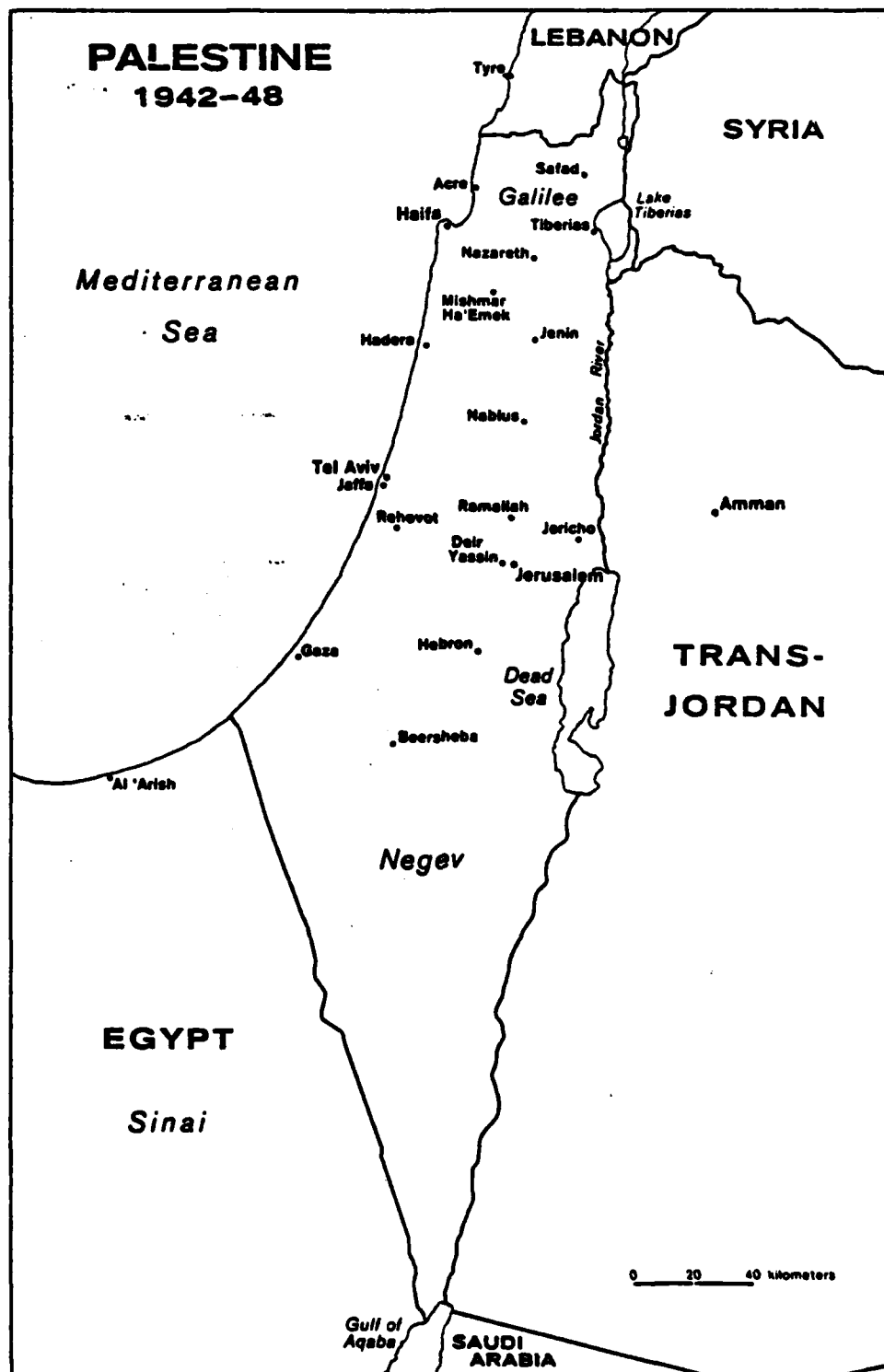


Figure 1. Palestine Prior to U.N. Partition Plan (94:11)

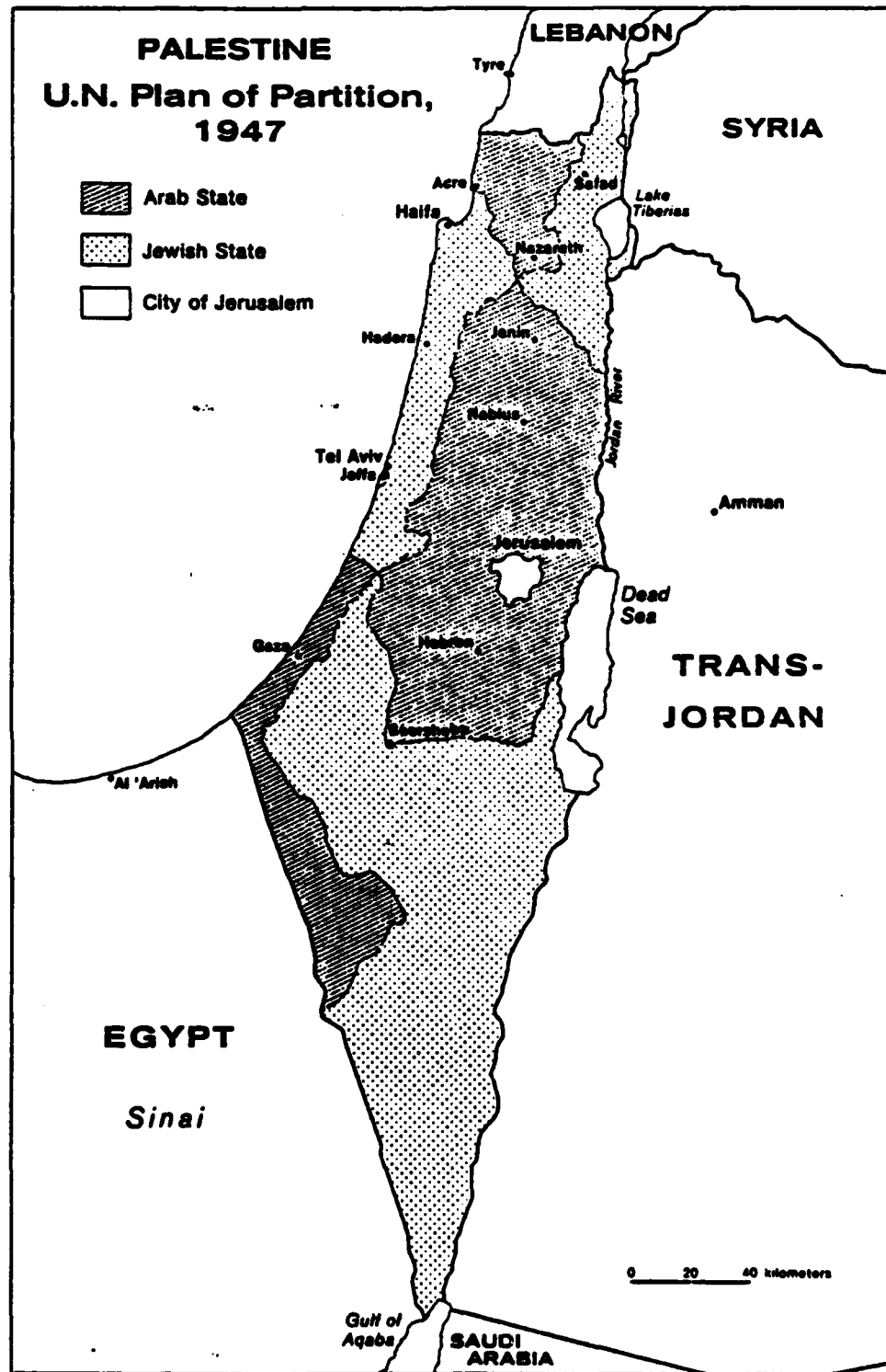


Figure 2. U.N. Partition Plan
(94:114)

political considerations and humanitarian ideals, instructed the U.S. delegation at the United Nations to "get the necessary votes" needed to obtain passage of the partition plan (94:149). On the day of the Assembly's vote, November 29, 1947, over 10,000 people tried to gain admittance to the General Assembly hall and tensions were high among the delegates. When the vote was taken, the partition was supported by a vote of 33 for, 13 against, and 10 abstentions (94:127). The plan had passed, opening the way for the emergence of the state of Israel.

The State of Israel Prepares for Defense

Despite the good intentions of UNSCOP, the partition proposal did not result in the settlement of the Palestine issue. The Zionists accepted the plan even though they were disappointed about the small land area allocated to them. The Arabs, however, were unalterably against the plan and vowed to "oppose the division of Palestine by all means at their disposal, including the use of armed force [11:407]." During the months following the UN passage of the partition plan and the end of British rule, active warfare erupted in the area.

By the time independence was declared on May 14, 1948, Israel had a military organization which had grown in numbers to about 30,000. The army, originally formed with financial support from the Zionists General Federation of Labor and the

Jewish Agency, operated before independence even though the British Mandate declared the bearing of unauthorized arms by Palestinian Jews to be illegal. Despite this ban, the army, or Haganah, smuggled arms and ammunition into Palestine and conducted training in secret. In addition to guarding settlements and manufacturing arms, the Haganah began the development of an infrastructure that served as the primary organization to defend against Arab attacks which the British seemed unable to prevent (45:234-235). The Haganah was unofficially permitted to grow stronger as the British realized that their own forces could not defend every Jewish settlement against Arab attack and therefore had to allow the Jews to defend themselves. During World War II about 32,000 Palestinian Jews had joined the British forces and some 5,000 of these formed the Jewish Brigade which provided them with further training and organization which would prove extremely useful in the future defense of Israel. The British also provided funds to field a force of some 3,000 full time soldiers, the Palmach, to defend Jewish settlements (45:236). After the war, the Haganah and the Palmach became the core for the Israeli Defense Forces (IDF) which were formed on May 31, 1948 (22:11). Even before the formal establishment of the IDF, the newly created state of Israel was faced with a threat to its existence posed by the May 15 Arab invasion which began the War of Independence.

The War of Independence
(1947-1949)

Although the IDF were not initially adequately armed, Israeli arms smugglers and agents had made arrangements for the shipment of substantial consignments of weapons. For example, ten Messerschmitt fighters, several transport planes, and even some American B-17 bombers had been secured and were enroute to Israel but did not arrive prior to the beginning of hostilities. The situation for Israel looked particularly bad on paper. The Israeli air force possessed only a few light planes; the navy consisted of motorboats; and the army owned only one or two British tanks and four old 65-millimeter guns. Although severely short of heavy weapons, the situation was better as far as small arms were concerned (6:122-123).

The Arab armies were not without their own problems. As a whole, they were not coordinated and acted as separate entities. Only the Legion, approximately 4,500 troops from Transjordan, was considered a first-rate force. The rest of the Arab armies were comprised of soldiers who were "gripped by emotional enthusiasm for a campaign they did not know how to fight [6:128]." The Arab armies lacked equipment, training, and supplies. The grand total of the Arab invasion forces came to only about 25,000 men--a far cry from the massive holy war which many Israelis feared (6:129).

The War of Independence was fought between two very small armies of almost equal size, each with counterbalancing

strategic and tactical assets. At the outset, the Arabs were better equipped, however, they used the equipment rather ineptly. The Arabs had an advantage in that they could move freely through Arab areas and therefore strike when and where they pleased. The Israelis, however, were adequately prepared and presented a very creditable defense. Overall, the Arabs simply did not possess sufficient forces to attack and conquer the well defended Israeli strong points because the Arab's superior equipment could not completely compensate for poor training and Israeli determination (6:129).

The actual fighting consisted of battles waged independently of each other with no clear front lines but only Jewish or Arab strongholds. At first the Arabs were able to gain some victories, but as Israeli shipments of weapons obtained through superb procurement efforts started arriving the balance began changing. By the end of the war, Jewish superiority in mobilized numbers, organization, and training was matched with near equality in armament (18:121). The war was extremely costly to both sides in terms of casualties as Table 1 indicates.

Table 1
Estimated Losses During the War of Independence

	Killed	Wounded	Total
Israel	6,000	15,000	21,000
Arabs	15,000	25,000	40,000

Source: (18:124)

American involvement in the War of Independence was minimal. However, two events, the support of the United Nations partition plan and the immediate recognition of Israel as a nation, set the stage for future involvement by the U.S. (94:150). Although the U.S. was first to recognize Israel as a state, other nations were also beginning to formulate their Middle Eastern policy. The Soviet Union strongly supported the U.N. partition plan and was among the first to recognize the new state of Israel (6:232).

The final results of the war were mixed. Israel had won the first challenge to its existence although no Arab nation recognized this right in any of the separate armistice agreements which ended the conflict. Israel at the expense of the Arabs had considerably expanded its territory allocated under the U.N. partition plan (45:236). This expansion allowed Israel for the first time in twenty years some physical security because it eliminated the zigzag borders which had made the state extremely vulnerable (6:427). The war did resolve the question of Israeli independence; however, it did not resolve the issues which led to the conflict (18:123).

The Suez War (October-November 1956)

Although Israel emerged victorious from its first challenge by Arab countries, the victory did little to diminish Arab hostility. Egypt under the leadership of new President Gamal Abdul Nasser bore a deep resentment for the

Israelis and had not forgotten the Egyptian defeat in Palestine (18:131). Egypt revitalized its army and prepared for revenge against Israel. Early in 1955 Egypt began sponsoring guerrilla raids into southern Israel from the Gaza Strip. As these raids increased, Israel began launching reprisal raids against Arab villages (45:237). The raids by both sides set the stage for the Suez War; however, it was accelerated by several other Egyptian actions. First, Egypt signed a major trade agreement with Czechoslovakia which provided Egypt with massive quantities of arms in return for agriculture products. The quantity of arms (e.g., 230 tanks, 150 MIG fighters, and 50 bombers) threatened the approximate parity in major weapons that existed at that time between Egypt and Israel. Secondly, economic pressure imposed by Egypt on Israel further threatened Israel's ability to survive. Egypt refused passage through the Suez Canal to Israeli vessels or foreign vessels carrying goods to or from Israel. Thirdly, Egypt imposed a blockade of the Strait of Tiran in 1953 which stopped passage of vessels through the Gulf of Aqaba to the Israeli port of Eilat (18:133-134). Finally, on July 26, 1956, Nasser nationalized the Suez Canal which had previously been owned by a company jointly controlled by the British and French. This action precipitated a confrontation causing both Great Britain and France to enter the conflict and align themselves with Israel. In secret meetings, the three countries jointly planned

military operations against Egypt to reopen the canal and at the same time overthrow the Nasser regime (11:408).

On October 29, 1956, fearing an imminent Egyptian invasion, Israel launched a preemptive attack into the Sinai. Israeli troops advanced rapidly, routed the Egyptian forces, and quickly gained control of almost the entire peninsula (45:237). The British and French governments attempted to legitimize their preplanned intervention into the conflict by proposing a solution which they knew Egypt would not accept. By prearrangement with Israel, the British and French governments issued an ultimatum on October 30 to both Israel and Egypt which threatened Anglo-French intervention unless their terms were met. The ultimatum called for a ceasefire, withdrawal of forces to opposite sides of the Suez Canal, and Egyptian acceptance of temporary occupation of the Suez by joint British and French forces to ensure an end to hostilities and allow free passage through the canal to all ships. As anticipated by the Anglo-French governments, Egypt rejected the ultimatum and Israel accepted the terms. Following Egypt's rejection, British and French aircraft began bombing Egyptian air bases during the night of October 31 and were able to destroy most of the Egyptian Air Force on the ground. Within a week Anglo-French forces had landed and retaken the canal. Because of Anglo-French operations, Israel was able to easily occupy the rest of the Sinai (18:160-215).

Although the military victory came easily to the Anglo-French-Israeli forces, the political outcome was much less triumphant. The war prompted strong, unfavorable reactions from both the United States and the Soviet Union. Once again the actions in the Middle East involved the two superpowers. This was a trend that would continue into the future as both Arabs and Israelis looked for money and arms to continue their confrontation. Egypt and several other Arab countries turned to the Soviet Union for support while Israel grew more dependent on the United States. In particular, Israel needed the money provided by private contributions and loans from the Jewish community and other friends of Israel in the United States (11:409).

In retrospect, the war was an unqualified military success for Israel. Politically, the results were mixed. Anglo-French-Israeli forces were forced to withdraw from the Suez Canal and the Sinai by pressure from both the U.N. and the U.S. In return a United Nations Emergency Force (UNEF) was established along the Sinai-Israel frontier which greatly reduced guerrilla attacks against Israel. Of equal importance, demonstration of exceptional military capabilities gained Israel greater respect in world affairs (18:217-218).

The Six Day War (June 1967)

The decade after the Suez War was a relatively peaceful time for Israel. The UNEF maintained the Egyptian armistice line and relations were generally calm with other Arab

nations. However, the underlying tensions still remained. Both sides prepared for the eventual renewal of the conflict, and an arms race developed. Egypt and Syria were supplied by the Soviet Union while Jordan received arms from both Great Britain and the U.S. During this period Israel received weapons from West Germany, Great Britain, and especially from France (45:238).

The tensions between Israel and the Arabs began to escalate during 1964 when the newly formed Palestine Liberation Organization (PLO) began launching terrorist attacks against Israel (7:29-32). A series of events starting in early 1967 eventually led to the outbreak of hostilities. In April, the Syrian shelling of Israeli villages was countered by an Israeli fighter attack in which Syria lost six MIG aircraft. Syria, shortly after the incident, began an extensive military buildup (45:238). On May 18 Egyptian President Nasser demanded the removal of the UNEF from the Sinai and the U.N. promptly removed the forces. President Nasser next ordered the closing of the Strait of Tiran and this action was considered by Israel tantamount to the declaration of war. To Israel the blockade was a serious problem because over 90 percent of its oil passed through the Gulf of Aqaba whose entrance is controlled by the Strait of Tiran (24:15-20). Egypt had forced Israel into accepting the consequences of such a blockade or taking action to reopen the strait. Israel chose to react and on the morning

of June 5 Israel launched a "preemptive strike" against Egypt, Jordan, and Syria (11:410). The Arab forces were caught unprepared and the Israelis inflicted total destruction on the Egyptian and Syrian air forces. As a result of the lack of air cover, Arab armies were practically defenseless against Israeli air power.

Immediately after the air strikes, the Israelis engaged the Egyptians in the Sinai and the Jordanians around Jerusalem. The Syrians were engaged also but the battle along this front was fairly inactive during the first four days of the war allowing Israel to concentrate on the other two fronts. Fighting was intense, but superior air power allowed Israeli ground forces to advance rapidly (18:221-317). The entire Sinai Peninsula to the eastern bank of the Suez Canal and the Gaza Strip were captured from Egypt. Jordan lost the eastern half of the city of Jerusalem and the strategic West Bank of the Jordan River to the Israelis (11:410).

Israel now turned north to the Golan Heights of Syria. Over the years Syria had built a formidable defense zone along the Golan Heights. In fact, 265 gun emplacements constructed there were capable of delivering more than ten tons of shells per minute and had posed a serious threat to Israel for many years. On June 8, the Israeli forces, in spite of an attempted U.N. cease-fire, attacked the area to remove the emplacements from Syrian control. In less than

two days Israel was able to capture the emplacements and occupy the Golan Heights. With all its objectives met, Israel complied with a U.N. cease-fire on the eleventh of June (18:317-326).

The results of the Six Day War were again mixed. Israel had expanded its geographic area fourfold (see map Figure 3) which again greatly improved physical security (45:240). However, several other results of the war were not so favorable to Israel. The Arab's use of oil as a political weapon caused European nations to reevaluate their dealings with Israel because of the extreme dependence of Western Europe on Middle Eastern oil. France, who had become the major arms supplier to Israel, stopped all arms shipments to the Israelis (18:345). The Six Day War like the two previous wars resolved none of the causes for tensions between Israel and the Arabs. Israel was therefore required to maintain its armed forces at high levels of readiness in spite of the expense (11:410-411). The Arabs, Egypt in particular, aware of the economic vulnerability of Israel and not able to wage a full scale military offensive, found other means to confront Israel.

The War of Attrition (March
1969-August 1970)

Hostilities between Egypt and Israel never really subsided after the Six Day War. For example, the Israeli flagship Eilat was sunk by Egyptian missile boats on October

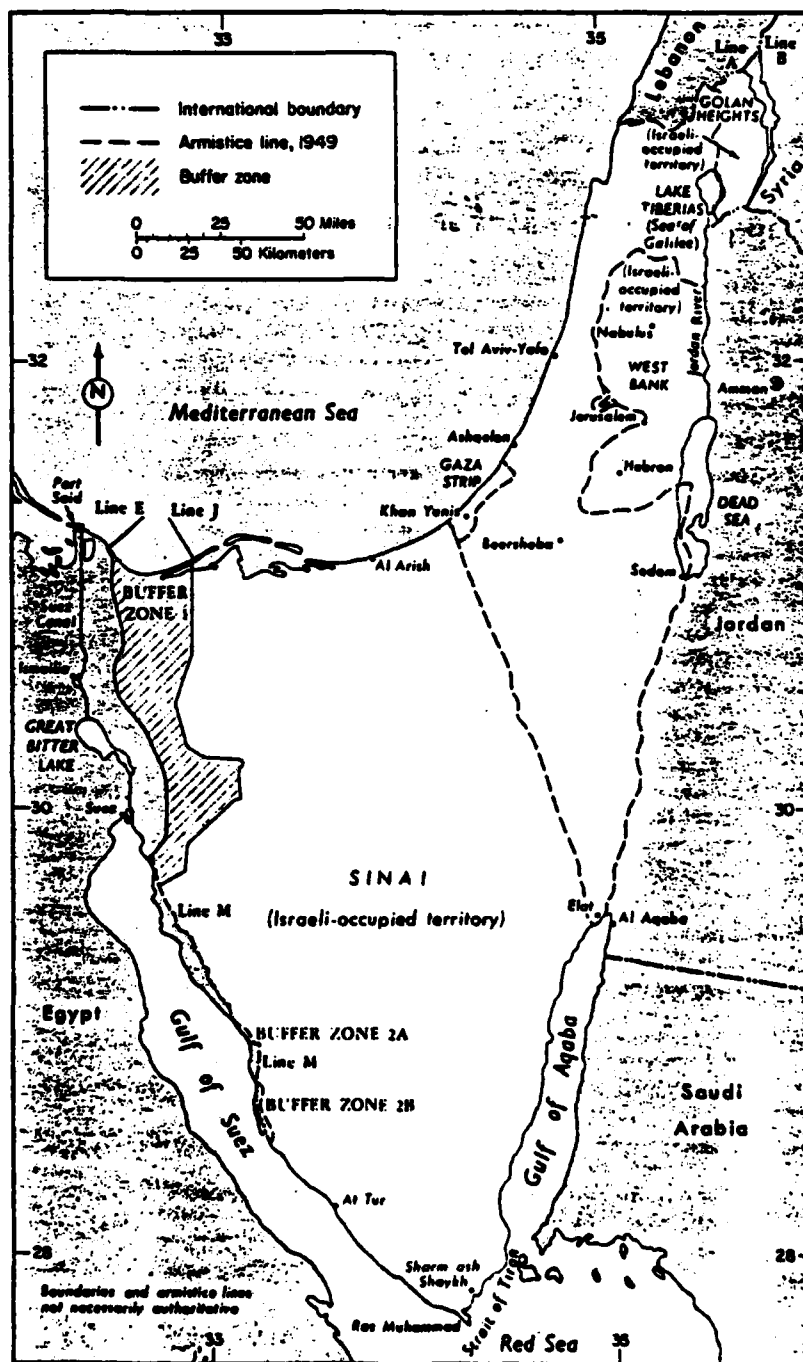


Figure 3. Israel and Occupied Territories.
(45:XXviii)

21, 1967 over four months after the cease-fire (18:349-361). The Israeli Air Force in response destroyed Egyptian oil refineries at Suez (45:241). Unwilling to wage another general war to regain the territory lost in the Sinai as a result of the 1967 War, Egypt decided to alter its tactics. Egypt was convinced that a limited war which was economically costly to Israel would force withdrawal. On March 8, 1969 the war began with a massive Egyptian bombardment of Israeli positions along the eastern bank of the Suez Canal. As the War of Attrition progressed, Egypt stepped up its artillery and missile attacks. The Israelis responded with bomber raids which each time went deeper and deeper into Egyptian territory (5:47-144). The devastating effects of the Israeli air raids hastened a Soviet decision to intervene in the conflict. Russian intervention became more and more direct as the war lingered toward its conclusion (5:144-166). Ultimately, on July 30, 1970, Israeli and Soviet fighters met head-on in aerial combat (45:241). Shortly afterwards, on August 8, 1970, a U.S.-sponsored and Soviet-supported cease-fire went into effect (18:369).

The war was not won or lost by either side. However, it did show the risks that the Soviet Union was willing to take in support of Egypt. Growing American support for Israel was indicated by U.S. efforts to establish the August cease-fire and the U.S. agreement to supply Israel aircraft to restore the regional balance (18:369). The use of the

most modern, highly sophisticated weapons by both sides confirmed the fact that the two superpowers had become major weapons suppliers. Overall, the war and the decline in hostilities that followed it served to bolster Israeli confidence. This led to a general feeling of security and relaxed military preparedness during the early 1970's (45:241). Unfortunately for the Israelis, this false sense of security would extract a heavy cost in the future because political events in several Arab countries would lead to a revival of hostilities (11:411-414).

The October or Yom Kippur War
(October 1973)

In late November 1972 Egypt began preparing for the next war with Israel. The Egyptians conducted monthly maneuvers near the Suez Canal in such a manner that the activity was always partially observed by the Israelis. This time the element of surprise would be used against Israel. Early in the planning the Egyptian leaders decided to attack on a Saturday which is the Jewish Sabbath. The planners calculated that on Saturday, October 6, 1973 the moon and the tides at Suez would be favorable for an attack. This particular date was not only a Saturday but fell on Yom Kippur which is the most solemn fast day of the Jewish religion. It was also during the Moslem holy month of Ramadan, a time when the Israelis would not expect Arab activity. According to the plan, an attack on this day would take the Israelis

by complete surprise. The date was agreed upon by Presidents Sadat of Egypt and Assad of Syria, but both leaders kept knowledge of the specific date from even their closest advisors until late September. Then on September 26, both Egypt and Syria announced the massing of troops for annual exercises (18:387-393). Although Israel had previously mobilized its forces when events of lesser significance occurred, this time Israeli officials postponed mobilization until the morning of October 6 when it became evident that an attack was imminent (45:241). At 2:05 P.M., instead of the customary dawn or dusk timing for major attacks, Egypt began to cross the Suez Canal while Syria attacked Israeli positions in the Golan Heights. The Israelis were surprised on both fronts and suffered heavy losses. After initial evaluation of the attack, Israel concluded that the southern front against Egypt could be held and therefore concentrated on the Golan Heights which was believed to be in greater danger. The Israelis launched a highly successful ground and air offensive which resulted in the recapture of the Golan Heights by October 14 (18:437-469).

When Israel turned back to the southern front, the Egyptians had already crossed the Suez Canal and captured all but two Israeli strongholds along the Bar Lev Line. However, the activity stalemated as the Egyptians tried to advance beyond the area protected by their Surface-to-Air Missile (SAM) sites. On October 15, a carefully planned and

well executed Israeli counteroffensive began. In the fighting over the next ten days the Egyptians were pushed back across the Suez Canal and the Israelis made deep penetrations into Egyptian territory (18:538-590). On October 24, with Israeli forces approaching the main highways to Cairo, a U.N. sponsored cease-fire was imposed (45:242). The Israeli forces in three weeks of intense conflict had managed to turn initial setbacks into successful military gains, but other results of the war were not so positive.

The Yom Kippur War proved extremely costly to Israel in terms of lives and money. Israel lost over 2,400 soldiers and an estimated 10 billion dollars in equipment. Israel also lost its self-confidence in its military superiority over the Arabs (45:242). The 1973 War illustrated that Israel's previous military achievements were reversible. During the first week of combat, Egypt and Syria adopted several elements of Israel's own military doctrine: they exploited the international situation, they successfully deceived and surprised Israel, and they used speed in initiating operations. Both Arab states were able to penetrate Israel's lines, causing consternation and fear. Although Syrian and Egyptian forces were eventually checked and forced to retreat, their initial success plus the high cost in casualties and war expenditures extracted from Israel paid off politically. In relative terms, the war was far more costly to Israel because its casualties were proportionally

higher and it had expended a greater share of its 1973 Gross National Product (GNP) than either Egypt or Syria (41:181). Following the war, the Arabs once again used oil as a political weapon. The oil embargo left the United States as Israel's sole source for most military assistance (8:128). Overall the war caused Israel to realize that:

In a hostile world, in which one superpower was willing to supply almost unlimited support to Israel's enemies, Israel could no longer self-confidently count on its own ability to preserve its security. Unpalatable though it is to many Israelis, they have had to accept the fact that, under these circumstances, their future security is dependent upon the continuation of American support and goodwill [18:603].

Summary

Israel was created as a state on May 14, 1948 ending the long search for a Jewish national homeland. However, the formation of the state did not diminish the deep-rooted animosities that existed between the Arabs and the Israelis. As a result, Israel's existence has been almost continuously threatened by overt Arab hostilities over the past 35 years. In the ensuing four major wars and one minor war of attrition Israel has managed to maintain its independence, but at substantial costs which have increased with each conflict. Unable to bear these costs alone, Israel has turned increasingly toward the U.S. for help. The American response in the form of security assistance is examined in the next chapter.

CHAPTER III

SECURITY ASSISTANCE

Overview

There are several security assistance programs through which the United States provides defense articles, military assistance, and defense-related services to eligible foreign countries (43:4-7). Of these programs, Israel benefits from the following: (1) the Foreign Military Sales (FMS) Financing Program, (2) the Economic Support Fund (ESF) Program, and (3) the Peacekeeping Operations (PKO) Program. Israel also receives other aid which is not specifically covered by one of these programs, but which is related to defense. For example, in 1979 Congress appropriated \$800 million to assist Israel in constructing two new airfields in the Negev Desert (76:5).

The U.S. security assistance policy toward Israel has evolved in phases over the 35 years since Israel's independence. Four distinct periods coinciding with events that influenced U.S. policy will be examined to provide a complete explanation of U.S. military and economic assistance to Israel (see Table 2). The first period, 1949-1967, represents the early phase of American support provided from Israel's independence through the 1967 Six Day War. The second period, 1968-1973, shows the aid furnished between

Table 2
Security Assistance, 1949-1984

FY ^a	\$ (In Millions)	Percent of Total	
1949-52	86.5		
53-61	508.1		
62-65	258.684		
66	126.836		
67	<u>12.96</u>		
Sub-total		993.08	4
68	76.8		
69	121.7		
70	71.1		
71	600.8		
72	404.2		
73	<u>409.8</u>		
Sub-total		1,684.4	6
74	2,534.164		
75	653.1		
76	2,493.9		
77	1,735.		
78	<u>1,785.</u>		
Sub-total		9,201.164	34
79	3,985.		
80	1,785.		
81	2,164.		
82	2,206.		
83	2,485. ^b		
84	<u>2,485.^c</u>		
Sub-total		<u>15,110.</u>	<u>56</u>
Total		26,988.644	100

a. Sources: FY 1949-76 (46:61)
 77-82 (88:6,19)
 83-84 (9:119)

b. Estimated
 c. Proposed

the June 1967 and October 1973 Wars. The third period, 1974-1978, details the aid extended to restore Israel's military forces after the 1973 Yom Kippur War. The final period, 1979-1984, depicts present day assistance beginning with the aid resulting from the Camp David Accords and the subsequent March 26, 1979 peace treaty between Israel and Egypt. Table 2 indicates that security assistance to Israel has been growing steadily since 1949. The growth, particularly in the last two periods, can be more easily understood when changes in U.S. security assistance policy are related to events in the Middle East.

An examination of the events in the Middle East reveals that after France and West Germany discontinued arms sales to Israel, U.S. security assistance was required to counter the Soviet Union's growing military aid to Egypt, Syria, and Iraq. Israel's dependence on the U.S. for military assistance was firmly established by the start of the 1973 Arab-Israeli War and in 1979 increased as a result of the Egyptian-Israeli Peace Treaty. Replacing equipment lost in the October 1973 War and developing the powerful military capability that currently exists has strained the Israeli economy. The rapid rearmament in the last 10 years has resulted in a swelling external debt which threatens Israel's financial stability. A review of how Middle Eastern events affected U.S. aid to Israel will provide the background necessary to fully understand why the special U.S.-Israeli security assistance relationship has developed to its present status.

The Early Period (1949-1967)

During Israel's first 20 years of independence, U.S. assistance amounted to only \$993 million (Table 2). Most of this aid, i.e., \$856.5 million (Table 3), was in the form of nonreimbursable economic grants which were intended to help the new nation maintain its independence. These funds were earmarked for the purchase of food, fuel, raw materials, and spare parts (38:16). Starting in 1955, economic aid was provided in part as grants and in part as low-interest long-term loans. This pattern continued throughout the 1950s during which time economic aid was furnished both as grants and loans. Due to Israel's rapid economic development, grants began to dwindle during the 1960s and became a very small percentage of economic assistance by 1967 (Table 3).

U.S. economic assistance to Israel from 1949 to 1967 sought to "promote the continued peaceful development of the country economically, socially, and politically toward stability and strength [86:4]." Economic aid was especially important during Israel's first years following independence because the development of a viable economy was essential. American financial assistance was supplemented with technical specialists who helped Israeli citizens in such areas as agriculture, national financial management, education, and transportation (40:306). Israel quickly advanced to the stage where U.S. technical advice was no longer required and the assistance was terminated by mutual agreement in 1962.

Table 3
Economic Support Funds, 1949-1984

FY ^a	\$ (In Millions)	Grant	Loan
1949-52	86.5	86.5	0.
53-61	507.2	258.9	248.3
62-65	219.9	22.9	197.
66	36.8	.9	35.9
67	<u>6.1</u>	<u>.6</u>	<u>5.5</u>
Sub-total	856.5	369.8	486.7
68	51.8	.5	51.3
69	36.7	.6	36.1
70	41.1	.4	40.7
71	55.8	.3	55.5
72	104.2	50.4	53.8
73	<u>109.8</u>	<u>50.4</u>	<u>59.4</u>
Sub-total	399.4	102.6	296.8
74	51.5	51.5	0.
75	353.1	344.5	8.6
76	793.9	525.	268.9
77	735.	490.	245.
78	<u>785.</u>	<u>525.</u>	<u>260.</u>
Sub-total	2,718.5	1,936.	782.5
79	785.	525.	260.
80	785.	525.	260.
81	764.	764.	0.
82	806.	806.	0.
83	785. ^b	785.	0.
84	<u>785.^c</u>	<u>785.</u>	<u>0.</u>
Sub-total	<u>4,710.</u>	<u>4,190.</u>	<u>520.</u>
Total	8,684.4	6,598.4	2,086.

a. Sources: FY 1949-76 (46:67)
77-82 (88:19)
83-84 (9:119)

b. Estimate
c. Proposed

Israel, with help from the U.S., had achieved a substantial degree of self-sufficiency, and from 1962 to 1967 Israel's need for economic aid diminished. The June 1967 War, however, shifted Israel's efforts from economic development to acquiring the means to meet growing defense requirements (55:375).

Military assistance was provided with a certain degree of reluctance on the part of the U.S. during the 1949 to 1967 period. The U.S. in 1948 complied with a U.N. Security Council resolution that imposed a general arms embargo on Palestine (17:30). In May 1950, America joined with France and Great Britain in the Tripartite Declaration which tried to control the flow of arms to the Israeli-Arab zone of the Middle East. The three nations agreed to consider future weapons transfers to the countries of the area only in accordance with the principle that arms would be supplied "for the purposes of assuring [the recipient's] internal security and legitimate self-defense and to permit them to play their part in the defense of the area as a whole [55: 378]." Following the declaration, America endeavored to limit the flow of arms into the Mid-East region. To prevent an arms race, the U.S. only selectively filled requests for weapons from Middle Eastern countries. The U.S. attempted to remain aloof from actual arms transfers but did encourage France and West Germany to provide limited amounts of defensive weapons. In 1955 the environment of the

Tripartite Declaration was irreversibly altered by the amount and quality of arms sold to Egypt by Czechoslovakia. The Egyptian-Czechoslovakian arms agreement signaled the emergence of the Soviet bloc as a uninhibited and major supplier of weapons to Arab countries. As a result, the U.S. revised its own arms transfer policy to one that was less restrictive. The American intention was to ensure an arms balance in the Middle East without causing the U.S. to be identified as a weapons supplier to either the Israeli or Arab side of the dispute (55:379).

America's reluctance to become a major arms supplier to Israel was tempered by occasional supplies of small quantities of weapons. Limited transfers of arms eventually led to increased military assistance to Israel as the U.S. reacted to escalating Soviet involvement in Arab countries. In 1962, after large Soviet arms shipments to Egypt, Syria, and Iraq, the U.S. announced the sale of ground-to-air Hawk missiles to Israel (67:49). The Department of State justified the Hawk missile sale as follows:

We also keep the arms situation in the area under constant scrutiny and may supply defensive weapons within an overall policy of not becoming a major supplier of arms to either side. When in the course of recent review it was established that Israel needed an improved air defense capability, the United States agreed to sell Israel the Hawk, a short-range defensive missile [55:379].

Other world events in the early sixties accelerated the American involvement as a weapons supplier to Israel. In 1962, after the conclusion of the Algerian War, France

reduced weapons shipments to Israel and increased arms transfers to the Arab nations. West Germany terminated arms shipments to Israel in 1964 when knowledge of their secret sales to Israel became public. The Soviet Union, on the other hand, continued unabatedly to supply substantial amounts of military assistance to Egypt. The U.S. quickly realized that without American intervention the arms balance in the region would shift in favor of the Egyptians (46:63). Consequently, the U.S. sold Patton tanks to Israel in 1965, and in 1966 agreed to supply Israel with 48 Skyhawk A-4 subsonic fighter bombers. The A-4 agreement marked the original entry of U.S. aircraft into the Middle East and was permitted by the Johnson administration because the planes were needed to maintain a regional balance in the face of massive Soviet deliveries to the Arab states (30:795).

Overall, the agreements to sell Hawk missiles, Patton tanks, and A-4 aircraft to Israel were made by the U.S. only because of Soviet deliveries to the Egyptians and the inability of Israel to procure weapons elsewhere (66:46-47). The sales prompted the U.S. to develop a general policy to minimize the impact of American sales on the arms balance in the Middle East. The guidelines implemented were: (1) American deliveries would follow Soviet deliveries by a year or more; (2) the U.S. would counter new Russian weapons with the least provocative available American weapon; and (3) the U.S. would deliver fewer weapons to Israel than the Soviets delivered to the Arab countries (46:63-64).

By the end of 1967, the U.S. had emerged as a limited supplier of weapons to Israel, primarily to counter-balance the Soviet arms supply to the Arab nations. The conflict that erupted involving Egypt, Syria, Jordan, and Israel in June 1967, and the inability to persuade the Soviet Union to cooperate with the U.S. in limiting weapons transfers to the region, caused a significant change in American foreign policy in the Middle East (55:379).

The U.S. Lifts Restraints
(1968-1973)

The period from 1968 to 1973 marked a major turning point which strengthened the U.S.-Israeli security assistance relationship. At the outbreak of the June 1967 War, the U.S. imposed an arms embargo on Israel and the Arab states. The embargo, which lasted beyond the war itself, stopped U.S. deliveries of arms already contracted for and any negotiations for new arms (55:379). After the war, the U.S. again attempted to prevent an arms race from developing in the Middle East. Russia, however, immediately resupplied the Arabs with weapons to replace those lost to Israel during the war. As a result, President Lyndon B. Johnson and Soviet Chairman Alexsei Kosygin were unable to reach an agreement to limit arms transfers to the Middle East. The unwillingness of the Soviets to reduce military support to the Arab nations resulted in increased pressure on the U.S. to offer more military assistance to Israel (17:83).

Congress, reacting to this pressure, forwarded a sense-of-Congress resolution to President Johnson which called for the U.S. to sell offensive weapons to Israel. The Johnson administration subsequently entered into negotiations with Israel which resulted in the sale of 50 F-4 Phantoms on December 27, 1968. This sale was significant because Israel, for the first time, was permitted to receive first-line U.S. fighter aircraft (14:28).

The sale of F-4 aircraft to Israel "was a major turning point in the U.S.-Israeli arms-supply relationship and opened the way for a continuing dialogue on military assistance [55:381]." The informal alliance that developed between the U.S. and Israel still focused on maintaining a military balance in the Middle East. Secretary of State William P. Rogers detailed the Nixon administration's policy toward military assistance to Israel in 1971 as follows:

During the search for peace in the Middle East, we have continued to sell U.S. military equipment and supplies to Israel. These steps were taken in response to the large shipments of arms by the Soviet Union to Egypt in 1969 and 1970 and to the increased direct Soviet operational involvement in Egypt's air-defense system. We are determined not to permit the military balance to tip against Israel. We have repeatedly made clear our belief that the balance must be maintained to avoid encouraging armed conflict and risk major power involvement. Although the United States is committed to prevention of a dangerous imbalance of armaments, this cannot be an end in itself but only part of the overall objective of achieving a peaceful settlement.

At the same time we have exercised restraint in approving shipments of arms to Israel and to friendly Arab governments, to avoid an escalation

in the level of armaments in the area and to keep the focus on peace negotiations [57:98].

Because of the U.S. commitment to maintain an arms balance in the Middle East, the U.S.-Israeli military assistance relationship reached significant new levels in terms of the value of equipment provided through the FMS program (Table 4). The growth in congressional appropriations from 1968 to 1973 indicated that Congress had begun to take an active role in providing military aid to Israel. In 1971 both Houses of Congress appropriated an additional \$500 million to finance weapons sales to Israel. Congressional legislation for fiscal year 1973 authorized the transfer of unlimited amounts of aircraft and supporting equipment through cash sales, credit sales, or guaranteed loans and led to increased American involvement as a weapons supplier to Israel (46:65).

This legislation stimulated the growth of FMS sales from \$25 million in 1968 to \$300 million in 1973 (Table 4) and was matched with a substantial expansion of the Economic Support Fund Program (Table 3). As a result, the U.S. provided Israel with \$1.7 billion in security assistance from 1968 to 1973 (Table 2). Of this total, only \$102.6 million (Table 5) was supplied as grants while the remainder was advanced as loans which required future repayment. All FMS transactions during this period were conducted as either cash or credit sales which contributed to Israel's external

Table 4
FMS Financing Program, 1955-1984

FY ^a	\$ (In Millions)	\$ Forgiven
1955-65	39.684	
66	90.036	
67	<u>6.860</u>	
Sub-total	136.58	
68	25.	
69	85.	
70	30.	
71	545.	
72	300.	
73	<u>300.</u>	
Sub-total	1,285.	
74	2,482.664 ^b	1,500.
75	300.	100.
76	1,700.	850.
77	1,000.	500.
78	<u>1,000.</u>	<u>500.</u>
Sub-total	6,482.664	3,450.
79	3,200. ^c	500.
80	1,000.	500.
81	1,400.	500.
82	1,400.	550.
83	1,700. ^d	750.
84	<u>1,700.^e</u>	<u>550.</u>
Sub-total	<u>10,400.</u>	<u>3,350.</u>
Total	18,304.244	6,800.

a. Sources: FY 1955-72 (73:19)
73-82 (74:19-20)
83-84 (9:119)

b. 1974 figure includes both \$300 million originally appropriated for FMS credit in FY 74 and \$2,182,664,000 made available for Israel by FY 74 Emergency Security Assistance Legislation.

c. Includes \$2,200,000 for Israel authorized by P.L. 96-35 (Special International Security Assistance Act of 1979)

d. Estimate

e. Proposed

Table 5
Security Assistance, Forgiven or Grants, 1949-1984

FY	\$ (In Millions)	
1949-52	86.5	
53-61	258.9	
62-65	22.9	
66	0.9	
67	<u>0.6</u>	
Sub-total		369.8
68	0.5	
69	0.6	
70	0.4	
71	0.3	
72	50.4	
73	<u>50.4</u>	
Sub-total		102.6
74	1,551.5	
75	444.5	
76	1,375.	
77	990.	
78	<u>1,025.</u>	
Sub-total		5,386.
79	1,025.	
80	1,025.	
81	1,264.	
82	1,356.	
83	1,535.	
84	<u>1,335.</u>	
Sub-total		<u>7,540.</u>
Total		13,398.4

Source: Consolidation of Tables 3 and 4.

debt. The impending October 1973 War acted as the catalyst which greatly increased the amount of American security assistance to Israel (66:46).

The Commitment Deepens (1974-1978)

The 1973 Yom Kippur War surprised Israel and resulted in heavy losses of military equipment. In desperate need of resupply, Israel turned to the U.S. for help. President Richard M. Nixon on October 13, 1973, ordered a massive airlift of tanks, Phantom fighters, ammunition, and other arms. Congressional support for Israel had never been stronger. Sixty-seven U.S. Senators urged President Nixon to send Israel Phantom jets and other arms as required to repel the Arabs (17:113). In a significant change from past American policy of making Israel pay for arms, Senator Stuart Symington expressed the general attitude of the entire Congress when he stated: "if the Israelis can't pay for it, we should see they get what they need regardless [17:115]."

The resupply during the 1973 Arab-Israeli War began a new phase in U.S. aid to Israel. The magnitude of Israel's defense needs and the heavy toll the war took on the Israeli economy caused the U.S. to provide outright grants of military aid and to increase Economic Support Funds (66:46). President Nixon on October 19, 1973 asked Congress to approve his request for \$2.2 billion in military aid to Israel in order "to prevent the emergence of a substantial imbalance resulting from a large-scale resupply of Syria and

Egypt by the Soviet Union [67:49]." Congress reacted by passing the request which, including Economic Support Funds, totaled over \$2.5 billion for fiscal year 1974 (Table 2). For the first time, Congress immediately "forgave" \$1.5 billion (Table 4) in FMS loans to ease Israel's war induced monetary problems. This pattern of extending substantial amounts of security assistance and then forgiving FMS loans or offering ESF as grants began a trend that has continued to the present time. Since fiscal 1974, FMS loans have been forgiven and ESF loans have been increased, in both amount and percentage in grant, to "help alleviate the financial burdens" on Israel (75:235).

The U.S. provided Israel \$9.2 billion in security assistance from 1974 to 1978 (Table 2). Of this amount, \$5.4 billion (Table 5) was either forgiven or made available as grants. As a commitment to help Israel recover from the Yom Kippur War, U.S. security assistance was now firmly linked to the Israeli economy and the Middle East peace process. It was this connection that eventually led to the next period in the special U.S.-Israeli security assistance relationship.

Present Day Assistance (1979-1984)

President James E. Carter's intervention into the Middle East peace process in 1978 marked the beginning of present day security assistance to Israel. In May of 1978, Congress approved President Carter's request to sell 200

fighter aircraft worth \$4.8 billion to Israel, Egypt, and Saudia Arabia (42:20). Israel's share of the package, \$1.9 billion, included \$400 million to purchase 15 McDonnell-Douglas F-15s and \$1.5 billion for 75 General Dynamic F-16s (48:17). Israel had earlier received 25 F-15s in 1975 as part of the U.S.-sponsored Sinai peace agreement (28:16). The additional F-15s were intended to "nudge the Israelis toward some concessions in the peace negotiations with Egypt [48:17]." In order to secure a treaty between Israel and Egypt, President Carter assured both nations that the U.S. would offer large amounts of aid to demonstrate "the U.S. commitment to the peace process [39:59]." The broader implication of the American-negotiated separate peace between Israel and Egypt was that the U.S. would become the protector and benefactor of the two nations. A separate U.S.-Israeli Memorandum of Agreement guaranteed that Israel along with Egypt would be the recipients of the most massive American assistance effort since the Marshall Plan (67:22).

The anticipated Israeli aid package was alluded to by Secretary of Defense Harold Brown shortly before the March 26, 1979 signing of the Egyptian-Israeli Peace Treaty. He stated that the administration would ask Congress for additional "high priority" weapons for Israel and would make a "very substantial" contribution to the costs of Israel's withdrawal from the Sinai (93:A4). The actual assistance requested by President Carter and appropriated by Congress

for fiscal year 1979 amounted to \$3.985 billion (Table 2). The aid package contained \$2.2 billion in long-term FMS loans with repayment over a 20-year period following a 10-year grace period (67:54). In addition to the \$2.2 billion, \$800 million more was given to construct two new airfields in the Negev Desert to replace fields turned over to Egypt in the previously Israeli-occupied Sinai peninsula (26:49). Finally, the delivery schedule for 75 F-16 fighter planes was accelerated and increased efforts were directed to expand cooperative arrangements between the U.S. and Israel on future weapons system research and development (67:54). To secure peace between Israel and Egypt, the U.S. provided Israel with almost \$4 billion in aid for fiscal year 1979 which represents the largest yearly security assistance package to date between the two countries (Table 2).

Another outgrowth of the U.S. involvement in the Middle East process was the establishment of the Sinai Support Mission in 1979 to fulfill the U.S. commitment to build an early warning system which would be operated by U.S. civilian personnel in the buffer zone (88:33). The Sinai Support Mission was replaced in 1982 by the Multinational Force and Observers (MFO) peacekeeping force as agreed to by the U.S. in the Egyptian-Israeli Peace Treaty. The MFO marked the first involvement of U.S. military units in the peace process (88:34). The deployment of American forces to establish the MFO resulted in the U.S. incurring much larger

operating costs than with the smaller and less expensive Sinai Support Mission (Table 6). Since the amount contributed by the U.S. to peacekeeping operations would benefit both Israel and Egypt, the funds were not included as part of the security assistance provided to Israel shown in Table 2. If PKO costs are included the total U.S. Security Assistance to Israel from fiscal 1949 through 1984 amounts to over \$27 billion (Table 7). Because of the dual nation benefit this figure is provided here for informational purposes only and was not used in determining total assistance supplied to Israel.

American aid to further the peace process has developed into a tenet of U.S. policy in recent years (35:83). Congressman Lee H. Hamilton, Chairman of the House Subcommittee on Europe and the Middle East, in 1979 stated: "that high levels of aid would continue and be sustained if we are persuaded that we are making progress toward peace [77:59]." Israel's subsequent withdrawal from the Sinai, relocation of Israeli bases, and return of the Alma oil fields in the Sinai demonstrated the Israeli commitment to the peace process, but was economically costly for Israel. U.S. realization of the high cost to Israel was expressed by the House Subcommittee on Europe and the Middle East as follows: "The United States, which played a major role in promoting the peace treaty between Israel and Egypt, should remain sensitive and responsive to Israel's economic problems [78:XVI]." U.S.

Table 6
Peacekeeping Operations Program, 1979-1984
(Dollars in Thousands)

FY ^a	Sinai Support Mission	Multinational Force and Observers
1979	11,700	0
80	16,000	0
81	14,928	0
82	5,000	125,000
83	0	22,100 ^b
84	<u>0</u>	<u>37,200^c</u>
Sub-total	47,628	184,300
Total		231,928

a. Sources: FY 1979-82 (88:35)
83-84 (9:119)

b. Estimate

c. Proposed

Table 7
Total Security Assistance, 1949-1984
(Includes Peacekeeping Operations)

FY	\$ (In Millions)
1949-67	993.080
68-73	1,684.4
74-78	9,201.164
79-84	<u>15,341.928</u>
Total	27,220.572

Source: Consolidation of Tables 2 and 6.

concern has manifested itself in two ways. First, forgiving a portion of FMS loans each year has reduced Israel's external debt and obligation for repayment. Between fiscal 1979 and fiscal 1984, \$3.35 billion in FMS loans were forgiven (Table 4) limiting the impact of U.S. arms purchases on the Israeli economy. The FMS loans that were not forgiven were extended on very favorable terms. For example, loans with a 30-year repayment period including a 10-year grace period on payment of principal were offered to Israel instead of the more conventional 12-year loans given to other FMS customers (79:XXXVII). Secondly, the U.S. provided considerable economic support, \$4.71 billion, between fiscal 1979 and fiscal 1984. Of this amount, \$4.19 billion or 88.9 percent (Table 3) was extended as grants. The ESF loans in 1979 and 1980, which account for the remaining 11.1 percent, were made available on concessional terms. These terms, a 40-year repayment period including a 10-year grace period on payment of principle, included extremely low interest rates of 2 percent during the first 10 years and 3 percent during the following 30 years (79:XXVII). It should be mentioned that concessionary loans are made for less than the cost of money to the U.S. government (82:152).

Despite substantial American help, Israel faces serious economic problems. The rapidly expanding foreign debt, an outgrowth of the 1973 Yom Kippur War, dominates Israel's financial difficulties. Debt service to the U.S.

alone has risen from \$560 million in fiscal 1978 to over \$1 billion in fiscal year 1984 (81:41). As a result, Congress in April of 1983 recommended that more concessional terms than those provided in fiscal 1983 are warranted in fiscal 1984 "to help Israel avoid an untenable debt repayment burden [81:X]."

The period from fiscal 1979 to 1984 saw a rapid increase in the magnitude of U.S. security assistance to Israel (Table 2). The terms on which aid was provided were modified to limit the negative effects on the Israeli economy. Of the \$15.1 billion (Table 2) extended during this time, \$7.5 billion (Table 5) or 49.9 percent was furnished as outright gifts to offset Israel's growing monetary problems.

The Commitment in Total (1949-1984)

Including aid projected for fiscal year 1984, Israel will have received approximately \$26.98 billion in security assistance from the U.S. since 1949 (Table 2). Of this amount, the FMS Financing Program accounted for \$18.3 billion or 67.8 percent (Table 4). The remaining \$8.68 billion in aid was provided through the Economic Support Fund (Table 3). Within both the FMS and the ESF programs a large proportion of the aid extended was either forgiven or originally transferred as grants. In the FMS program \$6.8 billion or 37.1 percent has been forgiven (Table 4). Grants extended through ESF totaled \$6.6 billion or 76 percent of

the economic assistance provided (Table 3). Overall, \$13.4 billion (Table 5) of the total \$26.98 billion (Table 2) has been extended without requiring repayment by Israel. This equates to 49.6 percent of the total security assistance to Israel. The vast majority of the waived repayments have occurred since 1974. Of the \$13.4 billion in nonrepayable transfers since 1949, \$12.9 billion has been provided within the last 11 years (Table 5).

Over the 35 year period the \$26.98 billion (Table 2) in security assistance to Israel is second in amount only to the aid furnished to South Vietnam (90:170F). Even though almost half of the assistance has been forgiven, the repayment of the remaining amount will not be easy for Israel. Israel's need for continued aid appears to be undiminished by past American assistance. In the future, the defense demands of Israel will continue to dominate its economy until a peaceful resolution to the conflict permits the Israelis to devote a lesser amount of their limited resources to security needs (81:13-16).

Summary

Strong support for Israel's military security and for its economic well-being has been and remains a central feature of American foreign policy in the Middle East. Although military and economic support for Israel developed slowly over the first twenty years following Israel's independence, the backing for a strong, secure, free, and

democratic Israel reflects a deep historic moral commitment on the part of the U.S. This obligation, as exemplified through security assistance, has grown in almost geometric progression from millions to billions of dollars since 1949. The U.S. has given a substantial proportion of aid, \$13.4 billion (Table 5), as either grants or forgiven loans. Repayment of the remaining loans to the U.S. presents an additional burden for an economy that is already overextended. The Israeli economy and the heavy burden of security are examined in the next chapter.

CHAPTER IV

THE IMPACT OF DEFENSE SPENDING ON ISRAEL'S ECONOMY

Overview

The economy of Israel is unique in many respects. From the beginning, it has depended on and received enormous infusions of money from foreign sources. The country is poor in natural resources and has been forced to import extensively for both production and consumption. Because Israel is surrounded by hostile Arab neighbor states, it has no close export markets but even more important it has had to develop and maintain an awesome and expensive military capability. In spite of these difficulties the country has made tremendous progress by any standards. The 1973 Arab-Israeli War marked a turning point in the economic performance and development of Israel. Attempting to cope with enormous security burdens coupled with high welfare and public service costs has resulted in severe economic problems, including hyperinflation and a massive external debt. Given Israel's national security requirements and continuous balance of payments problems, it was natural to develop a defense industry. Israel is increasingly turning to the exporting of defense equipment in an attempt to help offset its trade deficits caused by the heavy demand for military

and other imports. Since 1973 Israel has grown increasingly dependent on the U.S. government for security assistance. In view of Israel's economic situation, Washington's concern is deepening in regards to Israel's ability to manage its growing external debt.

History of Israel's Economy

In spite of receiving massive financial assistance from the U.S., Israel is facing serious financial problems that threaten its economic stability (63:11). A brief history of Israel's economic development is presented to provide the reader with an understanding of the unique forces that have locked Israel into the rigid economic structure that exists at this time.

Israel's economic history may be divided into three segments. From 1948 to 1952, Israel experienced national emergency conditions and an enormous immigration. From 1953 to 1972, Israel grew rapidly with economic accomplishments and productivity achievements virtually without precedent. From 1973 onward came a period of stagnation, with little productivity growth, enormous inflation, and a rapidly expanding foreign debt (see Table 8) (53:7). In view of its very limited natural resources, Israel has attained remarkable economic achievements since 1948. In the years prior to the 1973 Arab-Israeli War, Israelis expected sustained and rapid economic growth with steadily rising real per capita income and private consumption. Israel's foreign

Table 8
Israel's Total External Debt, 1955-1982
(Cumulative by Year)

Year ^a	\$ Million
1955	450
-	-
1965	1,226
-	-
1971	3,357
1972	4,081
1973	5,093
1974	6,250
1975	7,617
1976	9,281
1977	10,715
1978	12,765
1979	15,000
1980	17,400
1981	18,200
1982	20,000-26,000 ^b

a. Sources: 1955, 1965, 1971 (33:16)
1972-1979 (78:443)
1980 (79:425)
1981 (80:208)
1982 (65:22)

b. Estimated

debt, while significant, was within its capacity to service. The 1973 October War marked an economic as well as a political watershed. Worldwide price inflation, recession in the economies of major trading partners, and the Israeli government's decision to expand and modernize its defense forces confronted the country with serious balance of payments problems (79:425).

Economic developments in Israel are closely interwoven with political, military, and social factors (29:vii). With the exception of Pakistan, Israel is the only nation of the twentieth century founded on religious beliefs (44:1). The sense of a common destiny within Israeli society and the threat to survival resulting from continuous conflict with Arab neighbor states has shaped every facet of the country, including the economy (29:5-124). When Jewish settlers began to arrive in Palestine in the late 1800s, the economy was mainly semifeudal, production techniques were primitive, the exchange of goods through trade was limited so that money had limited utility, towns were few and small, and families relied on basic agriculture for the self-sufficiency required for survival. By contrast, the nation of Israel today has a sophisticated infrastructure, advanced educational facilities, international banking, expanding industry, and a powerful military force (45:177-230). The Israeli economy has made impressive progress by any standards but not without extreme difficulties within the country and unparalleled financial assistance from outside

sources (31:210-239). Money received from the diaspora, the West German government for reparations, and the U.S. has permitted Israel to make rapid economic advancements, surpassing most other developing countries, including its Arab neighbors (59:109-111). Israel has experienced an average annual per capita real Gross National Product (GNP) growth rate of 3.8 percent for the period 1960 to 1980. Real per capita income approximately doubled during this 20 year period and reached a level of about \$5,200 in 1981 (81:446). It has been said that the history of the Jewish renaissance in Palestine was one of triumph of vision and enthusiasm over economic considerations (31:224). The British administration which preceded Israel's independence pursued a rather passive economic policy and after independence it was often believed within the country that economic laws, even if valid elsewhere, did not apply to the peculiar conditions in Israel (31:210,225).

Because of immigration and national security, the Israeli government since 1948 has been involved in the economy to a degree unmatched in any other non-communist country. It has tightly bound the economy in a web of government regulations, controls, and subsidies (12:1010-1011). Israel's Zionist mission requires the existence of a vast social welfare state to provide for all who have the "right of return" by virtue of being Jews. Absorbing large numbers of unskilled and indigent immigrants forced the government to

adopt unique economic and social policies giving Israel one of the most generous welfare systems in the world (12:1011). Since Israel is isolated in a hostile environment, security considerations are paramount in nearly all aspects of foreign and domestic policy making. Security rather than economic or political considerations determines policy in such matters as arms acquisition and border disputes (41:134).

High personal income taxes and mandatory lending to the government have been two measures used in the past by the Israeli government to help pay the welfare and defense burdens. However, because Israelis live under the intense psychological tension of the constant threat of war, the Israeli government cushions its citizens against sacrifices and will not risk undertaking any economic policies that might weaken the cohesiveness of the society (12:1007-1011). Defense, welfare, and social services account for well over half of the annual budget with other fixed expenditures, such as debt repayments, accounting for most of the remainder. Consequently, without cutting back defense and/or social programs, there is virtually no opportunity for the Israeli government to restrain spending (12:1010). Israel's economy has also been the victim of inflationary trends in Europe and the U.S., as well as escalating oil prices which resulted in an annual energy import bill of over \$2 billion in 1980, nearly 10 percent of GNP (41:176).

At least since 1967 Israel has been living beyond its means and is caught in the economic dilemma of trying to

continually increase the standard of living while at the same time maintaining a military force whose power is disproportionately large in comparison to the size of the country (23:16-17). According to the International Institute for Strategic Studies in London, Israel (with a population of under four million) is currently the world's fourth strongest military power after the U.S., the Soviet Union, and China (90:170F). Israel allocates more of its resources to the military than do most other nations, and the immense weight of security costs has significantly influenced its economic development (41:175).

The Defense Burden

Israel has been virtually operating in a wartime economy since its establishment as a state in 1948 (89:35). As the scale of military operations has escalated from war to war, the cost of security reached about \$1000 per capita in 1978, compared to an average of about \$100 per capita in the Arab countries of Egypt, Jordan, and Syria (41:175). Israel's economy is dominated by its security needs, it devotes more of its GNP to military expenditures, and receives more per capita foreign aid than any other nation (41:133). Israel's defense burden is made up of three components: (1) domestic defense expenditures; (2) the growth of Israel's external debt as a result of defense imports; and (3) the loss of alternate income, which stems from the employment of a large part of the workforce in the defense

sector (3:204). From the beginning, Israel has been faced with serious military threats to its existence and integrity, and over the years has countered with the systematic development of its defense potential. This has meant not only an extremely high level of military spending, but the orientation of the economy in accordance with the strategic and tactical requirements of the country (59:114). Today, Israel possesses by far the most powerful war machine in the region. The Israeli Defense Forces (IDF) have grown immensely since the October 1973 War in both numbers and sophistication. The IDF now number 164,000 active duty personnel with 240,000 reservists ready to report on 24 to 48 hours notice; and, some of America's most advanced weapons systems make up the Israeli arsenal (45:254).

Few still question Israel's determination and military prowess to defend itself. There are, however growing questions concerning the burden defense spending continues to impose on the Israeli economy (53:9). Military expenditure as a percent of GNP which was in the range of 8 to 13 percent between 1956 and 1967 jumped to a range of 17 to 30 percent between 1967 and 1972 (10:22) and exceeded 43 percent of GNP in 1973 (72:39). Defense imports (includes both direct and indirect defense imports) rose from \$116 million in 1966 to over \$800 million in 1972. The 1973 War decimated the nation's weapons arsenal and necessitated another vast arms program which sent defense expenditures abroad

soaring to over \$2 billion in 1975 (12:1007). During the 1973 conflict, Israel lost an estimated \$10 billion in military equipment (69:38). Overall, the Yom Kippur War cost Israel a year's GNP, the country's economic growth was almost halted, and defense spending increased dramatically (62:364). The national budget increased sharply after 1973 largely because of increased military expenses. As a result, a vibrant economy was started on a decline toward inflation-ridden indebtedness (53:10).

Over the years, the cost to maintain Israel as a garrison state has been enormous with severe consequences for the economy (51:78). The percentages of GNP spent on defense (see Table 9) indicate the magnitude of the defense burden on a country practically devoid of natural resources. The figures for Israel far exceed those of other countries, such as the U.S., the Soviet Union, France, or England, which are richer and more capable of shouldering defense burdens (33:27). In comparison to Israel's excess of 30 percent, the Soviet Union spends about 15 percent of GNP on defense, the U.S. 5 to 8 percent, and most other countries less than 5 percent (47:12). Israel has the greatest military burden per capita of any country in the world. Military spending currently consumes almost one-third of GNP and is unquestionably responsible for much of the imbalance in the country's international payments (12:1006). But because political and military developments in the Middle East

Table 9
Military Expenditures as a Percent of GNP, 1966-1980

Year ^a	Percent of GNP
1966	11.7
1967	17.5
1968	20.7
1969	21.3
1970	29.6
1971	24.0
1972	24.3
1973	43.4
1974	34.7
1975	36.5
1976	38.5
1977	37.0
1978	30.2
1979	30.7
1980	29.1

a. Sources: 1966-68, 1970, 1972-1978 (33:26)
1969, 1971 (73:34)
1979, 1980 (74:53)

determine Israel's military requirements, defense spending cannot be completely controlled by the Israeli authorities (80:202). Since it must always be prepared for the possibility of war, the defense system has been obliged to maintain surpluses of expensive equipment and manpower even in peacetime. Consequently, Israel has been compelled to divert scarce resources to maintain a defense establishment disproportionate to the size and financial means of the country (47:13).

The military sector is the largest factor in the economy. It absorbed an average of nearly 37 percent of the government's budget during the decade of the 1970s. Of the \$17.7 billion 1980 budget, \$5.4 billion (includes domestic and foreign expenditures) or 31 percent went for military security and that does not include \$1.4 billion in military aid from the U.S. to allay losses from the peace treaty with Egypt (69:38). In 1982, \$5.5 billion of Israel's \$20 billion budget was for defense. According to reports published by the Bank of Israel, direct defense imports (see Table 10) rose from \$1.7 billion in 1980 to \$2.2 billion in 1981 (4:185). Israel's defense budget is much larger than the combined budgets of its major Arab opponents, and in addition Israel spends its defense money more efficiently than the Arab states. This combination has enabled Israel to maintain superiority not only in hardware but also in training, readiness, command and control, logistics, defensive barriers, and other intangible areas (10:21-22).

Table 10
Direct Defense Imports, 1972-1981

Year	\$ Millions
1972	490
1973	1,253
1974	1,225
1975	1,862
1976	1,498
1977	1,027
1978	1,567
1979	1,193
1980	1,698
1981	2,207

Source: (4:185)

Besides the direct costs of defense, considerations of national security have frequently been the motive behind many costly, uneconomical endeavors which otherwise might not have been undertaken. These indirect costs are more difficult to measure. Demand and supply of military needs have a disproportionate influence over all Israeli governmental decision making (23:17). The military is the most rapidly expanding and most technically advanced sector of the economy; it enjoys the highest national priority and absorbs inordinate shares of production output, labor, and foreign exchange (33:24). Currently, an estimated 300,000 persons or 25 percent of Israel's workforce are engaged in military-related production (23:17). In addition, every man between the ages of 18 and 54 is required to spend one month each year on reserve duty with a loss of productivity and output to the economy that is impossible to measure (45:233). The need to devote ever-increasing sums of money to defense and internal security has caused the government to raise taxes to rates which are among the highest in the world (47:11). Money spent for defense impacts other governmental programs such as public services and welfare. The National Insurance Institute states that 150,000 Israeli Jews live in poverty and that another 250,000 live in poor housing even though their income level may not put them in the poverty class (36:6).

Although the full impact is not yet known, the 1982 War in Lebanon affected the economy both directly and

indirectly. The direct cost of the confrontation has been estimated at roughly \$1 billion. Indirect costs resulting from reduced levels of tourism and production have been estimated at \$200 million and \$400 million respectively and the foreign exchange cost has been estimated at about \$400 million (81:459-460).

In addition to the 1982 War in Lebanon, other security related events have had a negative affect on Israel's economy. The revolution in Iran deprived Israel of its largest and cheapest source of oil. In 1979, Israel was forced to buy much of its oil in the very expensive spot market. As a result, oil import costs rose to approximately \$1.25 billion in 1979 compared to \$775 million in 1978. The problem has been made more severe by the return of the Alma oil field to Egypt in late 1979. Although Egypt has pledged to supply oil to Israel, the cost will be much higher than before (78:428). Additional demand pressures on Israel's economy resulted from the redeployment of military installations in the Sinai. As noted earlier, the U.S. financed the bulk of the cost of the two replacement bases constructed in the Negev and imported U.S. equipment and third country construction personnel were used to minimize the impact on the Israeli economy (78:432). However, it was impossible to completely shield the Israeli economy from the effects of the redeployment effort because of the need to develop the supporting infrastructure of transportation,

communication systems, schools, health facilities, and water distribution systems required to supplement U.S. financed construction. In addition, a third airbase will be constructed in the Negev without U.S. assistance (78:433).

In 1968 Israel launched a vast and ambitious program to become self-sufficient in the production of defense hardware. By 1973, military-industrial production exceeded \$500 million, a fivefold increase over the 1966 level. Following the 1973 War, Israel realized how dependent it had become on the U.S. for military equipment and accelerated the development of its own arms industry. As imports of expensive new military hardware surged, production continued to shift to military uses in an attempt to decrease dependence on the U.S. (50:16). Today Israel has a fast-developing and innovative defense industry capable of producing sophisticated weapons (69:38). As its economy has become increasingly dependent on its military establishment, Israel has attempted to expand exports (see Table 11) using military products (23:20-30). Israeli ambassadors have been instructed to assist in sales of defense wares to help to secure foreign markets (25:43). In 1978 arms exports of \$425 million accounted for about 20 percent of industrial exports (12:1008). Israel's weapons sales have jumped in the span of one year from \$750 million in 1979 to just under \$1.3 billion in 1980 (69:39). The Stockholm International Peace Research Institute (SIPRI) and the journal Defense

Table 11
Israeli Military Exports, 1977-1981

Year	\$ Millions
1977	250
1978	425
1979	750
1980	1,250
1981	1,300

Source: (23:24)

Attache rank Israel as the seventh largest arms exporter in the world and the largest outside of NATO and the Warsaw Pact countries (23:19). Israel is the largest single arms exporter to Latin America and Africa where countries have difficulties filling orders elsewhere because of political reasons (50:16). Exports of arms will probably continue to increase because of the combination of relatively lower prices and the combat proven seal which the 1982 Lebanon War has given to some of the Israeli armaments industry's latest hardware (32:7). Although its military market is growing, total imports still greatly exceed total exports (see Table 12) and Israel remains financially dependent on foreign sources.

Foreign Monetary Transfers

This study has presented data which shows that Israel throughout its history has received very large foreign loans and grants relative to the size of its economy. Historically, the most important among these concessional flows have been grants to private Israeli citizens, mainly from Jewish communities abroad and from the government of the Federal Republic of Germany as restitution for World War II losses, and personal remittances. Together, these transfers amounted to over \$14 billion from 1950 through 1978 and since the 1973 Arab-Israeli War have averaged about \$1.2 billion a year (78:429). From a base of \$1.8 billion in 1979, concessional flows of money from other than U.S. government

Table 12
Imports/Exports Trade Balance
(\$ Millions)

Year	Imports	Exports
1977	8,414	3,403
1978	10,347	4,075
1979	12,508	4,716
1980	14,331	5,797
1981	15,583	5,929

Source: (4:185,196)

sources are expected to increase by as much as \$700 million by 1984 (79:423). In recent years, unilateral transfers to private citizens have been overshadowed by U.S. government grants and concessional loans designed to help finance Israel's defense import requirements and to provide general balance of payments support. Disbursements from these sources have been running about \$1.9 billion a year since 1974 (78:429). Israel receives more U.S. security assistance and more liberal terms and concessions than any other country. U.S. assistance to Israel from 1948 through fiscal year 1983 totaled over \$25 billion (89:1).

Sales of government bonds provide Israel with another source of foreign exchange at below market interest rates and have averaged about \$350 million a year since 1973 (78:430). Revenue from bonds is expected to grow at 5 to 10 percent in current dollars eventually reaching \$450 million annually (79:419). Special U.S. federal and state laws have granted Israeli bonds the status of "investment-grade assets", sanctioning financial institutions and pension funds to purchase them within "prudent man" rules despite their low yield (65:22). Of the more than \$5 billion in bonds and other securities sold by the Israel Bond Organization since 1951, more than \$4 billion were purchased by investors in the U.S. Israel Bonds are the third most commonly held security in the U.S., following U.S. Treasury Notes and American Telephone and Telegraph (A.T.&T.) stocks and bonds (19:36).

There is no apparent systematic relationship between the size of Israel's current account shortfall on the one hand and the volume of private transfers, remittances, and purchases of Israeli government bonds on the other. The size of West German restitution payments depends upon the number of World War II survivors who can make a defensible claim for restitution based on personal loss (78:434). The size of these transfers has averaged just over \$400 million per year between 1978 and 1981 (3:212). In addition to reparations, the West German government makes long term, low interest loans to Israel. These totaled about \$80 million in 1980 (79:419).

Other private unilateral transfers and remittances have averaged \$780 million a year since 1974 and seem to be related in part to how donors perceive Israel's political circumstances, but not its economic circumstances. For example, in 1973, a war year, transfers rose to over \$1.1 billion, an increase of almost 60 percent over the previous year, only to fall back to the 1972 level in each of the next four years during which time Israel experienced serious balance of payments problems (78:434). Private transfers were stagnant during the first half of 1980, probably reflecting the recession in the U.S. and Western Europe as well as an absence of dramatic political events affecting Israel's security (79:418).

Israel has always been able to mobilize a large volume of financial resources on very favorable terms. In

recent years, these have been sufficient to finance trade deficits swollen to record levels by extraordinary defense requirements, the high cost of energy, and the heavy demand for imported goods and services for consumption (78:430). Total capital transfers from outside Israel amounts to about \$1500 per Israeli citizen per year, an amount more than three times higher than that of Jordan, the next most aid-intensive country (65:22).

External Debt

Israel faces problems partially or entirely beyond its control which put stresses on its economy and will continue to do so for at least the next few years (79:413). Prior to the 1973 War, Israel managed its economy in a way that permitted relatively rapid growth and a high degree of social welfare without excessive dependence on foreign assistance. Since 1973, economic growth has slowed, inflation and balance of payments deficits have become major concerns, and dependence on the U.S. for assistance has increased (81:449). As previously noted, there are currently a number of underlying economic problems in the economy such as high inflation, a low rate of economic growth, falling exports coupled with rising import demand, and inadequate levels of productive investment (81:461). Containing inflation and restoring the balance of payments equilibrium have been assigned the highest priorities by economic policymakers in Israel (79:414).

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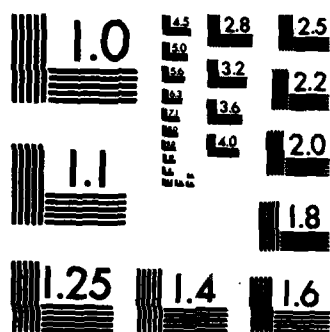
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The rate of inflation has remained above the three digit level since 1979 and for short periods it has accelerated to levels (approaching 200 percent) which could become unmanageable if sustained for longer periods (81:466). Inflation jumped from 48 percent in 1978 to 111 percent in 1979 (69:38). It continued to climb in 1980 reaching nearly 140 percent (62:364). Israel's rate of inflation in 1980 was the highest in the world that year (89:35). The underlying causes of inflation have been deficit spending by the government and excess demand (81:464). The government's stated highest economic priority for 1982 was to reduce the rate of inflation below the three digit level (81:466). This effort, however, was not successful and inflation stood at 132 percent going into 1983 (89:35). The high rate of inflation affects the balance of payments in two ways; first, it makes it difficult to manage a consistent foreign exchange rate policy, and second, it decreases export competition (81:465). Experience has shown that the inflation problem will be particularly difficult to solve (80:207).

The high balance of payments deficit and the large external debt have led to a constant devaluation of the currency. The Israeli shekel fell by 107 percent against the U.S. dollar in the year 1981 alone, culminating in a 914 percent devaluation in the past four years against the dollar and a 868 percent devaluation relative to other major currencies over the same time period (90:170E).

Exerting too much pressure to restore balance of payments equilibrium entails both economic and political risks. Tight controls on domestic public spending would probably increase bankruptcies, tight housing market conditions, and unemployment. The Israeli government has always been particularly sensitive to housing and employment conditions since it is assumed that problems in these areas reduce Israel's attractiveness both to prospective immigrants and to talented Israeli citizens who might choose to emigrate (79:420).

Israel's future prospects for resolving its balance of payments problems and successfully managing its external debt depend heavily upon developments in four areas: (1) the price of imported energy; (2) economic conditions in the countries with which Israel trades; (3) political and military development in the Middle East, and their impact on Israel's defense spending; and (4) the rate and pattern of growth in the Israeli economy. Although all of these factors complicate inflation and balance of payments problems, only the rate and pattern of growth of the Israeli economy is directly and substantially subject to the control of the Israeli authorities (80:202).

Broadly defined, external debt refers to the total liabilities, in foreign and local currency, of Israeli individuals and institutions to foreign concerns (38:2). Direct government debt accounts for most of Israel's external

debt (38:3). Israel's declared foreign debt is now more than \$20 billion and perhaps as much as \$26 billion (65:22). This equates to about \$6000 for every man, woman, and child in Israel and is a debt burden dwarfing that of any of the other prominently debt-ridden countries such as Brazil and Mexico (64:11). About 40 percent of the total amount of the debt is owed to the U.S. (20:12-F). Israel's foreign debt has been increasing every year for the past two decades (see Table 8). In 1955 the total foreign debt was around \$450 million or about \$250 per capita. By 1978, the foreign debt had grown to over \$12.7 billion or about \$3200 per capita (33:14). Between 1973 and 1979, Israel's total foreign debt increased from roughly \$5 billion to \$15 billion (78:430). It climbed to \$17.4 billion in 1980 (79:425) and to over \$18 billion in 1981 (81:457). The cost of servicing the 1983 external debt of over \$20 billion will exceed \$3 billion because some of the loans taken to cover the cost of the 1973 War are falling due after a ten-year grace period. Current debt servicing takes up nearly one-third of the national budget, roughly the same amount as defense expenditures (36:5).

The two main sources of external debt are Development and Independence Bonds (Israel Bonds) and loans from foreign governments. Israel Bonds, which accounted for more than half of the country's external debt in the 1960s by 1976 accounted for less than one-quarter of the total. On the other hand, debts to foreign governments, especially the

U.S. government, expanded consistently in both relative amounts and absolute amounts, and by 1976 constituted about 40 percent of the total debt (38:11). By 1976, after a dramatic expansion of loans, mainly defense loans, the U.S. government had become Israel's largest single creditor. Loans to Israel have been received from other governments, including France, Belgium, Great Britain, Finland, and West Germany; however, these were small in comparison to loans received from the U.S. (38:20). In recognition of Israel's difficult economic circumstances and security situation, the U.S. has provided large amounts of military and economic assistance for the past several years on highly concessional terms (79:424). Economic and military assistance provided to Israel by the U.S. government amounts to roughly \$7 million a day (2:12). Assuming that the interest rate of FMS credits is 10.5 percent, the approximate debt service savings to Israel resulting from forgiven interest and amortization payments under the FMS program is approximately \$10.5 million per year for each \$100 million of forgiven credits. Forgiving a part of FMS significantly lessens Israel's debt burden. The long grace periods (10 years) and amortization periods (20-30 years) granted for the unforgiven portion of FMS loans have the same effect. However, at an interest rate of 10.5 percent, the cost to the U.S. budget is \$100 million for every \$10.5 million that Israel is saved when a loan is forgiven (81:476). From the point of view of the

U.S. budget, FMS guarantees require the appropriation of 10 percent of the value of the financing as a reserve against default. On the other hand, forgiven FMS loans require full appropriation and result in 100 percent outlays (78:437). Even though the U.S. has consistently forgiven significant portions of FMS loans, the remainder is still large and requires repayment. Debt servicing of outstanding loans is of concern to Israel and the amounts owed will increase in the near future. Israel will repay the U.S. about \$971 million (see Table 13) in 1983 for FMS debt repayments which are projected to rise to over \$1 billion in 1984 and to about \$1.2 billion in 1991 (80:36).

The Department of State, the Agency for International Development (AID), and the General Accounting Office (GAO) agree that Israel's external debt is rising and GAO noted that the rising FMS repayment demands may lead to pressure for the U.S. government to increase assistance (89:V). Increasing the level of U.S. aid will not solve the fundamental problem of Israel's inability to sustain heavy defense expenditures without imposing an austere domestic economic program. More aid would lighten the debt burden, but only as long as the U.S. continues to provide the expanded level of assistance (78:436).

Summary

Israel's goal of becoming an independent and self-sufficient nation is being threatened by a debt-ridden

Table 13
Estimated Repayment Schedule to U.S. Government

Fiscal Year	\$ Millions
1982	875.7
1983	971.3
1984	1,023.1
1985	1,012.4
1986	1,001.8
1987	1,032.3
1988	1,061.2
1989	1,128.2
1990	1,188.3
1991	1,200.8

Source: (80:36)

economy caused in part by the escalating cost of expanding and maintaining its military forces (95:166-167). Especially since 1973, Israel has continuously turned to the U.S. for economic and security assistance. The U.S. response has been consistent and generous to the point of establishing Israel's financial dependence on the U.S. (64:11-12). The next chapter will examine the effects of Israel's financial dependence on the U.S. and the current relationship between the two countries.

CHAPTER V

CURRENT UNITED STATES-ISRAELI RELATIONS

Overview

In spite of disagreement over many Middle East political issues, there has always been a special relationship between the U.S. and Israel. For this reason, Israel has requested and received concessions and privileges denied to other countries. Relations between the two countries have ranged between periods of close cooperation to periods of uncompromising disagreement. Each country seems to be reassessing its attitudes toward the other. Friendship between the two countries has been strained in recent years as the U.S. has shown increased interest in Middle East countries other than Israel. For strategic and commercial reasons, the U.S. is attempting to balance its commitment to Israel against its desire for closer association with the Arab world.

U.S. Commitment

As has been stated previously, Israel receives more U.S. security assistance and more liberal terms and concessions than any other country in the world. The U.S. commitment to Israel over the past 35 years is predicated on shared cultural, religious, moral, and political values.

The commitment is not couched in terms of any specific agreement such as a mutual security pact (89:i). Close ties between the U.S. and Israel have existed since 1948 and have never been broken in spite of frequent and sharp differences in policy between the two countries (41:136). A recent General Accounting Office (GAO) study conducted for the Senate Foreign Relations and the House Foreign Affairs committees stated:

The continuity of the U.S.-Israeli relationship is a key tenet of U.S. policy in the Middle East. Israel as a stable democracy and the region's strongest military power, is considered by the U.S. to be a strategic asset in the Eastern Mediterranean against a Soviet threat. Nonetheless, some problems have surfaced as the U.S. has attempted to reconcile its commitment to Israel with its other commitments and interests in the Middle East. Meanwhile, U.S. assistance programs for the defense of Israel have steadily increased and each U.S. President has restated strong U.S. support for Israel [89:1].

The danger of both open and latent conflict in the Middle East is so grave that it receives attention at the highest levels of governments throughout the world. Deputy Assistant Secretary for Near Eastern and South Asian Affairs Morris Draper in testimony before the House Foreign Affairs Committee stated that the political and security environment of the Middle East region was deteriorating. Mr. Draper attributed the tenseness in the area to the Iran-Iraq War, the Soviet occupation of Afghanistan, and the tripartite pact among Libya, South Yemen, and Ethiopia (15:74). A representative of Egyptian President Hosni Mubarak recently echoed

this assessment of danger when he stated that "the Middle East has grown more unstable and more explosive over the last two years [56:5]." The war in Lebanon exemplifies the volatility of the region. Fourteen months after Israel invaded Lebanon in June 1982, Israeli casualties have climbed to 517 dead and 2,943 wounded. The country of Lebanon remains divided and occupied by 28,000 Israeli forces, an estimated 50,000 Syrian forces, and about 12,000 Palestinian guerrillas (56:5).

The U.S. is perceived by many Israelis as one of only a few nations that can be trusted, and this perception has been sustained by massive U.S. military and economic support (61:136). Close links with the U.S. are a result of ideological and cultural affinities. From 1948 until 1967, Israel was seen as an outpost of Western civilization in a generally hostile area (50:13). Today Israel is seen as a stronghold against communist expansion in the region and a model of progress and development for the Third World (41:170). In spite of friendship between the two countries, the interests of Israel and the U.S. are not identical. Just as there have been political differences in the past, political differences should be expected in the future (50:12). Although the U.S. has not yielded from its commitment to assist Israel to maintain its economic stability and qualitative military superiority, the U.S. has tried to increase friendly relations with various Arab nations which continue to resist the recognition of Israel as a nation (89:2).

Because of differences over strategic goals and downgrading of cooperation in matters of intelligence, there is speculation that the special relationship between the U.S. and Israel is growing more fragile (50:18). The U.S. commitment to defend the threatened existence of Israel is costly. The cost could be reduced by reducing the threat which from a U.S. perspective will require compromise (95:166). Former Under Secretary of State George Ball made the following statement in a 1982 interview:

Obviously our policy must take full account of the commitments that have been made to the security of the state of Israel, never formalized but repeated by one President or another until they have become recognized as binding. At the same time, nothing would tear the fabric of American society apart more quickly than if we were ever called on to intervene militarily to rescue an embattled and threatened Israel. Such a situation would create an ugly internal dispute which we should do everything possible to avoid. This requires that we take every available measure to anticipate and avoid conflict. We should use our influence not merely with the Arabs, where it is limited, but most emphatically with the Israelis, where it is unquestionably substantial [51:75].

Official aid from the U.S. government amounts to more than \$600 a year for each Israeli citizen (91:10). Largely because of U.S. financial assistance, the Israeli standard of living is remarkably high in comparison with other countries in the region (27:76). U.S. financial assistance also has a multiplier effect in that commercial banks are more inclined to make loans to Israel if money is also coming from the U.S. government (64:11). There is growing concern, however, that the U.S. may be confronting a

rising spiral in financing Israel that could prove difficult or even impossible to stop (20:12-F). The Israeli economy is extended beyond its means. The more foreign aid it receives, the more it intensifies Israel's dependence on outside sources (47:4).

Special Privileges

The special relationship between the U.S. and Israel is exemplified by special considerations Israel is given not only in the monetary amounts of security assistance but also through more liberal terms, conditions, and purchasing flexibility than is received by other countries. Israel receives more FMS forgiven loans than any other recipient, more FMS loans with long term repayment periods, and its procurement of military systems has been expanded through an administrative mechanism called cash flow financing. Cash flow financing permits Israel to order military equipment based on future FMS credit expectations which have not yet been authorized by Congress. This privilege implies a strong commitment by the U.S. to provide large amounts of credit in future years (89:20). To ease the financial burden of defense, Israel has been permitted to repay FMS loans over a 30 year period in contrast to the maximum repayment period of 12 years for most countries receiving guaranteed loans (89:20). In 1982, Israel was permitted to exhaust FMS forgiven funds prior to drawing on FMS loans. This dispensation to Office of Management and Budget (OMB) policy, that

states that grants and loans must be used proportionally, allowed Israel to defer for several years \$19 million in interest payments (89:23). Israel is also an exception in that it receives economic assistance without reference to specific development projects so that there is more freedom in how the money can be used (89:31).

Israel is heavily dependent upon U.S. financial and technical support in enhancing its armaments production capability. In an effort to promote greater self-reliance in the future, Israel is seeking increased U.S. assistance in developing its defense industries and expanding its arms export opportunities. Israel has already been granted liberties beyond those of any other country receiving FMS credit, including:

1. trade offset arrangements for FMS purchases. Although such arrangements are common for commercial sales, they are unusual for FMS;
2. coproduction at higher levels of technology than any other FMS credit recipient;
3. opportunities for Israeli industry to compete in the DOD procurement market by bidding on U.S. defense contracts without Buy American Act restrictions;
4. cooperation in research and development; and
5. authorization to procure the Pratt and Whitney 1120 engine for the Lavi fighter with licensed production in Israel for about 80 percent of the engine (89:42-60).

In addition to the above privileges already extended, Israel has made the following requests for additional exemptions to U.S. arms transfer policy:

1. that it be allowed to use FMS credits to purchase products made in Israel;
2. that other countries be permitted to use their FMS credits to purchase Israeli goods;
3. that the sale of Israeli goods to the U.S. armed services be promoted and allowed without the usual restrictions placed on products manufactured outside the U.S.;
4. that it be allowed to use FMS credits to purchase tooling and production equipment from Israeli sources in order to build up its production capabilities; and
5. that the U.S. provide the necessary technology and funding for Israel to produce its own highly sophisticated aircraft (89:42).

In February 1982, Israel officially decided to go forward with developing the Lavi fighter aircraft. Israel considers this program to be of great national importance to developing a technological industrial base to advance its military independence. U.S. technology and financing for major portions of the program will be required. Israel will also require U.S. approval for the planned third-country sales because the Lavi will use a U.S. patented engine and because of U.S. technology used in the airframe, avionics, and weapons systems. The Lavi is expected to be competitive

with U.S. and European fighter aircraft now in production and those planned for the 1990s (89:55).

Israel's military requirements and U.S. political influences are both factors which determine FMS levels. The Congress places more attention and exerts more influence on assistance to Israel than on other assistance programs (89:6). For example, the two air bases built by the U.S. Corps of Engineers, at U.S. expense, in the Negev to replace the bases turned over to Egypt in the Sinai cost much more than the bases left in the Sinai because of built-in automation redundancy and survivability which increased construction expense (89:67). The U.S. has also agreed to guarantee an oil supply source to Israel in the event Israel cannot secure oil on its own. This arrangement came about as a result of the return of the Sinai oil fields to Egypt. Israel is the only country that has such an agreement with the U.S. (89:62).

Differences

Relations between Israel and the U.S. have sometimes been described as a "love-hate" relationship. Israel is torn between insistence on its own independent Middle East policies on the one hand and a close affinity with the U.S. on the other. Relations have not always been cordial. There have been periods of coolness, even antagonism, when Israel pursued policies regarded by the U.S. government as provocative or reckless, while U.S. policies often seem ambivalent or inconsistent to Israel (41:169).

The U.S. and Israel generally agree on the nature and extent of the Soviet threat to the Middle East region. However, the Israeli government is concerned about U.S. efforts to assist neighboring Arab countries to improve their military forces in order to achieve a strategic consensus against the threat of Soviet intrusion into the region (89:2). Israel has more to fear than any other country in the region in the sense that its very existence has never been acknowledged by any Arab state except Egypt. Israel is strategically unfavorably located with its back to the Mediterranean Sea, a long border, and a narrow land space which provides little territorial depth for defense. Historical experience has made security of primary importance to Israel. Especially where security is concerned, Israeli leaders have preferred short-term, low-risk solutions to problems over longer-term, more visionary, yet inherently more risky compromises (52:156). Because of its preoccupation with security, Israel fears being dependent on the U.S., being alone in a hostile area, and is concerned with the U.S. attempt to supplant Soviet military aid to the Arabs (10:22). In fact, Israel often dismisses American attempts to fashion an even-handed policy in the Middle East as selling out for Arab oil (61:132).

Despite the close security assistance relationship between the two countries, there have been long-standing differences between American and Israeli defense planners

regarding the Arab-Israeli military balance in the Middle East and the scale of the military threat to Israel (52:157). The U.S. agrees that the Middle East will remain an unstable area for the foreseeable future and that certain Arab states pose a potential threat to Israel. The U.S., however, does not concur with all Israeli assessments concerning the magnitude of the threat (89:12). The American assessment of Israeli military requirements is somewhat lower than the Israeli assessment (89:14). The U.S. would like to reduce the threat to Israel through negotiations. The alternative to doing otherwise is to incur all the financial and diplomatic costs involved in countering the threat militarily (95:167).

Since Israel cannot hope to approach Arab numbers in manpower, it argues that it must maintain a qualitative edge in its weaponry (52:158). The U.S. and Israel agree that Israel's threatened security requires FMS assistance. There is growing concern in Israel, however, over the level of FMS because increasing arms sales to Arab nations are seen in Israel as eroding its qualitative advantage (89:10). Although some Arab countries that are potential adversaries of Israel are obtaining the same generation of technologically advanced weapons, U.S. officials believe that Israel retains greater operational effectiveness of its forces. Some of the reasons given are superior training; the integration of command, control, and intelligence systems; and the capability to employ and maintain sophisticated weapons systems

(89:12). Also, arms sales to Arab states in the region by either the U.S. or the Soviets have generally led to additional military assistance to Israel to offset Israeli security concerns (89:10).

Israeli officials are particularly sensitive to the level of casualties they could sustain in a full-scale war with the Arabs and were strongly opposed to the sale of F-15 aircraft to Saudi Arabia in 1978. Israel is concerned with the trend in recent years of growing American weapons sales to Arab countries and fears that the focus of U.S. regional interest is shifting toward the Persian Gulf and Saudi Arabia (89:11). Israel began to regard Saudi Arabia as a "confrontation state" after the Saudis had received F-15 aircraft because of the range of the F-15 and the fact that Tabuk airbase in Saudi Arabia is only about 150 miles south of the Israeli port of Eilat. The sale of AWACS surveillance planes and external fuel tanks for the F-15 was interpreted by Israel as increasing the threat to its security (52:158).

A Pentagon study in 1979 concluded that Israel had enough military power to repel any Arab attack between 1979 and 1984, and that any increase in the transfer of American arms to Israel beyond those already authorized would be destabilizing. The U.S. has been reluctant to grant arms on a scale that would give Israel full freedom of action (52:160). As noted, Israel is militarily by far the strongest country in the Middle East. Its defense planning is already

geared to avoid a protracted war by placing emphasis on offensive forces, especially air and armor, designed to disrupt and destroy an enemy quickly, and to keep the war at a distance (52:156).

Arms transfers can be an important symbol of support and friendly relations and thereby create influence. The most important political benefit of arms transfers may be leverage over another country's sensitive foreign policy decisions. There are, however, no guarantees since influence and leverage are transitory phenomena. In fact, military assistance can often create an uncertain supplier-recipient relationship which limits the freedom of action of both countries involved (52:19). The argument is often proposed, particularly in the Arab world, that the U.S. should take advantage of Israel's dependence on U.S. assistance to exert leverage over its policies. The U.S. has attempted on occasion to induce Israeli flexibility in the Middle East peace negotiations through either granting or withholding military assistance (52:159). This has been a sensitive matter; leverage often proves limited and there is a tendency to disavow in public any link between aid and Israeli concessions (52:160). Throughout most of the 1970s, Washington believed that Israel must be made to feel sufficiently secure and confident to make the territorial concessions necessary for a peace settlement with its Arab neighbors. This rationale was used to justify many of the FMS transactions

during this period. It has not been clear, however, that strength through arms has made Israel more flexible or willing to accept some risks in negotiations. When Israel's leaders felt strong or self-confident they would resist pressures for changes in the status quo. This dilemma was summarized as follows by former Secretary of State Henry Kissinger: "When I ask [Prime Minister] Rabin to make concessions, he says he can't because Israel is weak. So I give him more arms, and then he says he doesn't need to make concessions because Israel is strong [52:160]."

Israel's failure to achieve true autonomy by shedding its dependence on the U.S. is the counterpart to America's predicament. The U.S. provides much of the political, military, and economic support that guarantees the survival of Israel but has only a limited amount of leverage over its policies in the Middle East (52:164).

There is fear and resentment in Israel because of its dependence on the U.S. (12:1016). Many Israeli officials feel that their support for U.S. interests around the world should earn them special considerations from Washington and the American people (23:30). To aggravate the situation, Israel is becoming more dependent on the U.S. at a time when the American electorate is becoming increasingly critical of all foreign aid (12:1013).

There have been differences between the U.S. and Israel on a wide variety of military and political issues,

including territorial borders. Because Israel has been at war with its Arab neighbors since 1948, its borders have never received formal international recognition. The territorial concept of Israel differs not only in the international community, but even among Israelis themselves (41:161). The capital at Jerusalem is still not recognized by the U.S. which maintains its embassy in Tel Aviv (68:96).

In addition to differences between the U.S. and Israel regarding the perceived threat to Israel and its military needs, there have also been problems over the use of weapons transferred from the U.S. American law stipulates that military aid can be suspended if the arms are used for other than "defensive purposes". The Foreign Assistance Act (FAA) and the Arms Export Control Act (AECA) explicitly restrict the use of any U.S. supplied arms to "legitimate self defense" or "collective measures requested by the United Nations". Precedents have been established in which countries (notably Turkey, a NATO member) have been suspended from receiving U.S. military assistance because of FAA and AECA violations (63:11). In accordance with the AECA, the President was required by law on four occasions to report to the Congress that Israel "may have" used defense articles and services obtained from the U.S. for other than internal security or legitimate self-defense purposes. Three of the incidents involved crossing into Lebanon in 1978, 1979, and 1982 and the fourth involved the June 1981 bombing

attack on the Osirak nuclear facilities in Iraq. In each case the President followed the statutory language to the AECA literally in reporting to the Congress but the act does not require that he do anything more and no permanent sanctions were imposed on Israel (89:25). In addition to a possible violation of U.S. law, some U.S. officials were concerned that the bombing of Iraq's nuclear reactor risked compromising secret technology on some of the U.S. Air Force's (USAF) most sophisticated weapons had any of the F-15s or F-16s used in the raid either "flamed out" or been shot down over Iraq (2:11).

American officials have become increasingly concerned in recent years that Israel could acquire knowledge of sophisticated military technologies from the U.S. and then export Israeli arms containing such technologies, thereby circumventing American restrictions. For this reason, some requests for "technical data packages" have been denied. For example, Washington has rejected repeated requests for licensing arrangements to coproduce the F-16 in Israel even though Israel will receive 75 F-16s through FMS, some of which have already been delivered (52:162). Israel initially tried to withhold information on how U.S. weapons performed in Lebanon in order to win political concessions from Washington. Israel also wanted to participate in the examination of any equipment returned to the U.S. for assessment and insisted that the results of these studies

were not to be passed on to third parties, including NATO allies, without Israeli permission. U.S. Secretary of Defense Caspar Weinberger did not agree to the Israeli demands (50:18).

The U.S. has a responsibility to ensure that economic and military assistance provided to a country is used in ways that are consistent with overall U.S. objectives and not detrimental to America's best interests. The U.S. is faced with the possibility of indirectly supporting Israeli actions with which it does not necessarily agree. Because of U.S. economic assistance, money that Israel collects from other sources is released and can be used, for example, by the Israeli government to pay the liberal subsidies grant to its citizens settling on the West Bank or in other occupied areas (89:28).

The 1982-83 War in Lebanon has been expensive for Israel. It remains to be seen how the U.S. administration will respond to any requests for aid to finance a war which went beyond its own regional interests (90:170F). As the war wound down, a principal U.S. concern was to keep the Israelis from withdrawing to a security zone south of Lebanon's Awali River to prevent a defacto partition of Lebanon (34:4). As of this writing, the U.S. has not been successful in this effort.

Israel's strength is in substantial measures due to the U.S., the major supplier of economic and military assistance. In many ways, the U.S. has been Israel's sponsor and

protector, even though the latter role has not been embodied in written commitments (52:157). Israel's growing isolation and the increased acceptance of the PLO have made ties with the U.S. crucial since 1973. The hope of economic and military independence has been frustrated as Israel finds itself unable to compete with the vast funds available to the Arab world from oil. For example, Saudi Arabia alone receives more than fifty times the capital imports from the sale of its oil than Israel receives from foreign economic assistance each year. There are frequent disappointments in the American connection, and at times acrimonious diplomatic exchanges but there has also been friendship and cooperation (41:171).

A Master Defense Development Data Exchange Agreement with the U.S. that dates back to 1970 permits the exchange of information important to the development of a wide range of military systems including tanks, surveillance equipment, electronic warfare, air-to-air and air-to-ground missiles, and engineering. As of August 1982, 25 separate data exchange annexes covering individual projects under the agreement have been concluded (89:43).

Future Relations

The Reagan administration considers a strong Israel to be a good investment against Soviet and Soviet-supported challenges in the Middle East (15:75). Although U.S. assistance has been generous and provided under very liberal terms,

U.S. decision makers are now faced with determining the extent to which the U.S. will continue to bolster the Israeli economy and subsidize its national budget (89:28). Because of reliance on foreign aid, there has been no demand for either the Israeli government nor the people to acquire the self-discipline to live within their financial means (47:14). Israel will probably intensify its requests to the U.S. for increased assistance through such avenues as increased amounts of ESF, better repayment terms on future loans, and through U.S. assistance as consumers of Israeli products (89:28).

Because economic aid to Israel is not linked to projects in that country, the amount of aid is based on political considerations as well as economic analysis. The first of two positions under consideration calls for continuing U.S. aid at the same levels as in fiscal 1982. The argument for this view is that the current level of aid would indicate undiminished U.S. support to Israel's creditors, while the aid in real terms would be lower, providing incentives for Israeli policy makers to restrict public as well as private consumption. The second position states that any reduction in financial assistance would be damaging both economically and politically. Using this argument, Israel's economic stabilization program would be damaged which would adversely affect Israel's chances of obtaining international loans from commercial sources. Politically, such an unprecedented occurrence could be interpreted as a

reduction in overall U.S. support which may adversely impact future peace efforts and could negatively affect U.S. goals in the entire Middle East region (89:32). There is the possibility that dramatic cuts in military and economic aid to Israel would feed the very psychological anxieties they are designed to outweigh and lead to greater Israeli intransigence (61:137). Because of growing Soviet involvement in Syria, Israeli officials probably do not expect a decline in U.S. assistance (91:10).

U.S. Senator Alan Cranston proposed a formula to be permanently used in the future that would guarantee that annual economic assistance would never be less than the annual amount of Israeli debt repayment to the U.S. In effect, the U.S. would be obligated to increase aid as necessary to cover Israel's debt to the U.S. (90:170F). Almost all of this debt is related to prior military purchases. Opponents, including the Reagan administration, of the linkage concept point out that Israel would avoid incurring the financial discipline of repaying FMS loans and therefore linking aid to repayment might serve only to increase military loan requests. In defeating Senator Cranston's proposal, others pointed to the precedent-setting nature of such actions which might cause other countries to seek similar arrangements. The Department of State felt that the proposal would divert money away from other countries that also have justifiable needs (89:33). Israel already receives the major share of ESF appropriations. Of the \$2.7 billion in

ESF for fiscal 1983, Israel received 30 percent, Egypt received 28 percent, and the remaining 42 percent was shared by 31 other countries (89:29).

It has been suggested that the U.S. help Israel increase its exports as a way of eventually reducing aid levels. Both countries obviously prefer to lessen Israel's dependence on direct U.S. assistance in return for an economically stronger Israel. However, using this approach, Israeli independence of U.S. aid would probably be contingent on U.S. willingness to consume more Israeli exports which is a degree of dependence in itself (89:37). GAO recently stated that Israel probably will not realize its optimistic forecast for export growth to help pay its rising debt burden and is therefore likely to make further requests that the U.S. assist by increasing its economic support. In fact, Israel has already asked that the U.S. revert back to the one-half forgiven credits and one-half loan formula for FMS aid that was used prior to fiscal 1981 (89:38).

Israel will probably encounter debt service problems as the 10-year grace periods on loans made during and following the 1973 War begin to expire resulting in large payments on principal in addition to interest (89:39). Any decline in U.S. aid would have a severe impact on Israel's economy because of the cost of servicing its massive foreign debt (36:5). The State Department believes that although it is true that Israel faces a level of debt service obligations which will require prudent financial management and

planning, there is no reason to doubt that Israel can undertake such measures. Nonetheless, it would appear that the U.S. may face greater pressure regarding the amounts of aid to Israel and the conditions with which it is granted (89:40).

Israel's development of industrial self-sufficiency would mean less direct U.S. assistance should be needed. However, if Israeli industry and trade are eventually expanded to a point where direct U.S. assistance can be greatly decreased, then the Israeli competitor factor against the U.S. in the international arms market will also have increased. Even so, Israel will probably remain dependent on the U.S. for the most advanced and sophisticated aircraft and other military equipment. The massive investment in research and development required for producing sophisticated weapons requires economies of scale that Israel is unlikely to be able to achieve (89:42-43).

Israel's relationship with the U.S. and the strong U.S. support and assistance for its defense are founded on staunch U.S. friendship and on the fact that Israel is a democratic form of government in the Middle East region. The relationship has been supported by the American public, and the Congress has often been willing to raise the levels of security assistance beyond the amounts requested by the executive branch (89:76). As countries in the region hostile to Israel obtain more sophisticated weapons, a growing dilemma exists for the U.S. as to how much assistance it can

provide to maintain a proper balance between Israel and the Arab states. Without peace, U.S. costs and arms transfers to the Middle East continue to escalate and it is difficult for U.S. planners to mutually agree with Israel on its military needs and just how much of those needs the U.S. can support (89:76). The planning process is further complicated because much of the assistance for Israel has been provided by the FMS program under long-term loans for which principal repayments are starting to come due in 1983. For Israel to be able to maintain what it considers to be adequate defense while at the same time repaying past borrowing, it most likely will need to ask the U.S. for financing terms even more liberal than those granted in the past (89:76).

The Israeli government has not been successful in disciplining its economy and is about to get caught up in the vicious cycle of borrowing to pay off debts (89:55). After the Camp David Accords and subsequent peace treaty with Egypt, Israelis looked forward to an era of prosperity, not economic retrenchment (78:426). To most Israelis emigration statistics are more important than crime statistics as an indication of social malaise. At one time emigration was deemed so despicable that those who left were regarded as near traitors. But emigration in the last few years is so common that the stigma is fading (69:43). According to the Israeli government, in 1979 more than 400,000 Israelis

were living in the U.S. and Canada, including 200,000 in New York alone (12:1015).

From a U.S. perspective, the ultimate solution to Israel's security depends on a negotiated settlement with its Arab neighbors (89:V). The U.S. has participated in a succession of diplomatic efforts to help resolve the seemingly intractable Arab-Israeli conflict. The U.S. played a major role in promoting peace in the Middle East through a settlement between Israel and Egypt at the Camp David Summit in September 1978, followed by a formal peace treaty in March 1979. On September 1, 1982, President Reagan set forth his Middle East initiative as a fresh start in the peace process but at the same time reaffirmed an ironclad U.S. commitment to Israel's security (89:3). Even though the overall commitment is firm, a recent GAO report stated that public attitudes toward Israel at the time foreign aid legislation is proposed may influence Congressional support.

In deciding the structure of the military aid package to Israel, the U.S. is faced with considerations of Israeli policies that sometimes differ with U.S. foreign policy. As is the case for any independent and sovereign recipient, foreign assistance for Israel is not directly tied to whether it fully agrees with the U.S. or always acts in accordance with U.S. wishes. However, as differences arise, some elements of the U.S. public and government find this frustrating. Israel has used U.S. furnished weapons in Iraq and Lebanon in a manner which, the administration has stated, may have violated the agreements under which they were provided. However, it is unlikely that U.S. officials would be willing, as a practical matter, to cut off the flow of weapons as the law provides when violations occur. Israel has also occupied area

outside its borders: in Lebanon, Golan, and West Bank, and Gaza. U.S. policy makers question such moves but recognize Israel's fears that its enemies are otherwise too close. The costs of such actions, however, can have an impact on Israeli requests for U.S. support [89:78].

The Reagan administration has rejected a suggestion that U.S. financial penalties should be imposed for the creation of each new Jewish settlement in the occupied West Bank (91:10). Israel's freedom of political maneuver, however, has been constrained by its economic dependence on the U.S. (59:125). Israel fears that the U.S. may withdraw or cut financial aid, but at the same time, there is also growing resentment within Israel at the extent of its dependence on the U.S. (49:10).

Overall support for Israel in the U.S. remains strong. In a letter to President Reagan signed by 130 retired flag-rank U.S. officers, the ingenuity and effectiveness of the IDF were praised and attention was drawn to the profound military significance of the decisive defeat of Soviet supplied aircraft and other weapons in Lebanon. The generals and admirals reminded the President that Israel is a trusted ally and of the value to the U.S. of having access to Israeli ports and bases in the event of a serious strategic threat to the Middle East. They concluded by urging the President not to be side-tracked by differences but to revitalize cooperation between the U.S. and Israel (81:632).

Summary

U.S. leverage over Israel's political decisions remains limited in spite of military, economic, and technical support. The two countries differ as to threat assessment and determination of military requirements for Israel. The U.S. commitment to Israel, however, remains firm.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Overview

In developing the previous chapters, the author's primary attention has been focused on U.S. security assistance provided to Israel and some of the effects of this informal alliance. It is appropriate that the authors stress at this time that the analysis and conclusions presented below are entirely their own and should not be interpreted as representing the philosophy or policies of the U.S. government or its agencies.

Conclusions

The conclusions of this study will be presented by answering each of the research questions posed by the authors in Chapter I. Before attempting to answer the overall research question, however, the secondary research questions will be addressed.

Research Question 1. Is there a serious threat to the continued survival of Israel?

The history of Israeli wars indicates that the security of the country has been continuously threatened since 1948. Even though Israel has always been able to defend itself militarily, it has never been able to relax its

preparation for war. The very existence of Israel has never been accepted by any Arab country except Egypt and that relationship is cooling. The geographical configuration of Israel makes the country especially difficult to defend because of its narrow width and long eastern border with Jordan. The country can be crossed within minutes by modern high-speed aircraft leaving little, if any, time to react to surprise. For this reason, Israeli security is built on early warning and quick response so that the war can be kept at a distance and outside of Israeli territory. This strategy requires aircraft, armor, and other sophisticated weapon systems. The 1973 War indicated just how quickly Israeli territory could be penetrated, by the use of modern weapons and the element of surprise. Even though Israel successfully repelled the attack, the Arab challenge was substantial.

One reason tensions remain high between Israel and its neighbors is that trade relationships have never been established, preventing commerce and tourism which could, over time, reduce hostilities. Israel has been forced to rely on the U.S., possibly its only ally, thousands of miles away. In addition to war itself, Israel has been subjected to over-the-border shellings and terrorists attacks.

The stability of the Middle East region seems to be declining as a result of the Syrian-Israeli standoff in Lebanon and the Iranian-Iraqi war. Overall, however, Israel

perceives a greater threat to its security than is estimated by U.S. defense analysts.

Research Question 2. Has security assistance provided by the U.S. to Israel been adequate?

Economic and military assistance provided to Israel has far exceeded that provided to any other country. In addition, the dollar amounts have been complimented by special considerations and privileges that expand Israel's freedom in using the aid provided. As for military support, U.S. defense planners closely monitor the Middle East region evaluating military capabilities. Israel is by far the most powerful military force in the region and unlimited aid from the U.S. could set off an arms race that would further destabilize the area. The U.S. has been careful to balance arms sales to Arab countries, by either the Soviets or the U.S., with increased aid to Israel. Realizing Israeli fears, the U.S. has used security assistance so that Israel will feel militarily strong and confident enough to make concessions during negotiations. For example, the two air bases built in the Negev at U.S. expense are far superior to the Sinai bases turned over to Egypt.

The Agency for International Development monitors Israel's economic situation. Because of U.S. aid, the standard of living has increased in spite of massive defense spending, giving Israel by far a higher standard of living than any of its neighbors. While the U.S. wants to assist

Israel with its defense burden and support it as an ally and friend; at the same time, Israel must exercise the financial discipline to manage its national budget. A growing dependence on the U.S. not only limits Israel's autonomy but could set precedents for other countries to seek similar arrangements from the U.S. The success of Israeli military actions over the past decade and the fact that the standard of living has increased in spite of defense spending indicates that security assistance has been adequate.

Research Question 3. Has Israel been economically capable of providing for its own defense?

Israel has been forced because of direct and perceived threats to maintain an awesome and expensive military capability. Following the 1973 War, Israel made the decision that its security demanded the modernization and enhancement of its armed forces. This decision was a turning point in that resources were diverted to defense until, by 1982, Israel had developed into one of the strongest military powers in the world. During this same period economic growth that had been rapid, slowed; inflation climbed to the three digit level; and external debt grew rapidly.

Israel probably would have experienced some economic problems because of its small size, its lack of natural resources, and its welfare policies. However, any financial problems experienced for these reasons have been compounded by the staggering cost of direct and indirect military

expenditures. The most sophisticated and expensive weapon systems available have been imported to guarantee the qualitative superiority Israel believes necessary to counter a threat from any combination of neighboring Arab countries. Because of constant preparation for war, security requirements dominate the national budget and the economy. The cost of war itself aggravates an economic situation that is already critical. For example, the war in Lebanon has cost over \$1.5 billion (81:459-460) and Israel is still maintaining a 28,000-man force in that country (56:5).

Each year Israel spends about one-third of its GNP on defense. In addition, a massive external debt has been generated in large part for money borrowed in earlier years for defense. Defense spending of the magnitude Israel is experiencing would not be possible without assistance from either the U.S. or another country capable and willing to commit its own resources to Israel's defense needs.

Research Question 4. What is the current status of the U.S. commitment to Israel?

Even though the U.S. is seeking close relations with Arab countries in the Middle East for several reasons, including defense and economic, the American commitment to the security of Israel remains strong. President Ronald Reagan in an address to the American people in September 1982 reaffirmed the U.S. commitment to the security of Israel as has each of his predecessors since Israel's independence in

1948. Referring to the U.S. initiatives for peace in the Middle East, President Reagan said:

In the course of the negotiations to come, the U.S. will support positions that seem to us fair and reasonable compromises and likely to promote a sound agreement. We will also put forward our own detailed proposals when we believe they can be helpful. And, make no mistake, the U.S. will oppose any proposal - from any party and at any point in the negotiating process - that threatens the security of Israel. America's commitment to the security of Israel is ironclad. . . [1:25].

The U.S. is also interested in peace in the Middle East because of the region's strategic importance to the U.S. and the impact of oil on the economy of the world. Israel and the U.S. do not agree on many political matters in the region, particularly when Israel perceives its security to be in danger or its sovereignty challenged. In these very matters where it has the least amount of leverage, the U.S. would most like to influence Israel's decisions and actions. The friendship between the two countries has often been strained by accusations and disappointments but the U.S. commitment to Israel has remained firm. In addition to supplying military, economic, and technical assistance; the U.S. has befriended Israel in other ways such as using its veto power in the United Nations Security Council to protect Israel from economic and trade sanctions.

Overall Research Question. What effect has security assistance provided by the U.S. had on Israel's defense posture and economic stability?

U.S. security assistance has been essential to Israel's defense posture and economic stability, but there have also been some undesirable side effects. Israel has successfully repelled threats in the past and according to U.S. defense analysts is militarily capable of withstanding a future challenge from any combination of its neighbors. The strength and successes of the IDF are well known throughout the world. Because of its size and limited resources, however, Israel could not have developed the military force it possesses today without U.S. assistance.

In addition to military assistance, economic aid has helped Israel to increase its standard of living, expand its industries, and purchase imports. U.S. aid not only helps the Israeli economy directly but it also has a multiplier effect in that it makes commercial loans easier for Israel to obtain.

Since about half of security assistance has been provided as loans over the last decade, Israel's financial debt to the U.S. is growing. It is possible that Israel will realize little benefit from future U.S. loans as larger amounts of aid received will be required to service debt already owed to the U.S.

U.S. security assistance has been successful as a temporary fix but should not be regarded as a permanent solution. Economic dependence of one country on another over a long period of time can only lead to uncertainty and

disappointments for both countries. For Israel to go it alone, the root cause of conflict between the Arabs and the Israelis will have to be resolved and this will require risk-taking and compromise on both sides.

Recommendations for Further Study

Cash flow financing permits a country to order a weapon system or other military equipment that will be received in future years, based on expectations of receiving FMS credit that has not yet been authorized by Congress. In effect, a country is permitted to set aside only the amount of money needed to meet a current year's cash requirement for a production contract spread over several years, rather than the total amount of the contract. Cash flow financing seems to be related to but inconsistent with multi-year procurement procedures used by the USAF. Prior to the USAF entering into a multi-year procurement contract, the total contract cost must be authorized by Congress, although appropriations are by year to cover deliveries. On the other hand, under the cash flow financing concept, a country receiving FMS credit is permitted to order long lead-time items or weapons systems in anticipation of but prior to Congressional authorization of additional FMS credit to the country. This allows the country to stretch buying power and place more orders than the available credit guarantees authorized in a given year.

The U.S. has allowed Israel to use cash flow financing procedures since 1974. From 1976 through 1980, these procedures were used for the procurement of F-16 aircraft. Egypt was permitted this privilege after the Camp David Accords and more recently, Turkey has been allowed to use cash flow financing.

A follow-on study would be appropriate to determine to what extent cash flow financing used by Israel, Egypt, and Turkey is inconsistent with multi-year procurement procedures used by the USAF, since one method requires full authorization of funds from Congress and the other does not.

The following study of a more general nature is also recommended. It is possible that political changes in the U.S., political and economic changes in Israel, and events in the Middle East region may influence the security assistance relationship between the two countries. For this reason, the study performed in this thesis should be periodically updated.

APPENDICES

APPENDIX A
GLOSSARY OF TERMS

Balance of payments: A systematic record of all the economic transactions between one country and the rest of the world in a given period of time, usually one year (21:28).

Bar Lev Line: A line of hardened concrete and steel-reinforced bunkers on the east side of the Suez Canal built before the War of Attrition (58:691).

Cash Sales: involves either cash in advance or payment within a reasonable period not to exceed one hundred twenty days after delivery of the article or the rendering of the service, or payments as funds are required to meet progress payments to suppliers under a Dependable Undertaking (84:2).

Credit Sales: Transactions approved on a case-by-case basis by the Departments of State, Treasury, and Defense, which allow payment for military export sales for periods beyond one hundred twenty days after delivery of material or performance of service (84:4).

Debt service: Principal and interest payments made on external debt (81:473).

Deficit spending: The spending of public funds raised by borrowing rather than by taxation (92:297).

Diaspora: Jews living outside Palestine or modern Israel and the state of the Jews living in the Gentile world (45:395).

Economic Support Funds (ESF) Program: provides loan or grant economic assistance where essential, to support important allies and friends (9:4).

External or foreign debt: The total liabilities, in foreign or local currency, of one country and its citizens to foreign concerns (38:2).

Foreign exchange: All monetary instruments which give residents of one country a financial claim on another country. The use of foreign exchange is a country's principal means of settling its transactions with other countries (21:189).

Foreign Military Sales (FMS): The selling of military equipment and services to friendly foreign governments and international organizations under the authority of the Foreign Military Sales Act of 1968, as amended (60:304).

Guaranteed Obligation: Bond, note, debenture, or similar instrument, issued by an agency, of which either the principal or interest or both are guaranteed by the United States (60:325).

Haganah: Literally, defense. Abbreviation for Irgun Ha Haganah, the Jewish defense organization formed in 1919-20 by volunteers in early Jewish communities as home guards for protection (45:396).

Holocaust: Word used to designate persecution and annihilation of Jews by Nazi Germany from 1933 to 1945 (45:397).

Jewish Agency: Represents the World Zionist Organization by working in close cooperation with the government in matters involving gifts, loans, and properties. It promotes the development of Israel, encourages immigration of Jews into the country, and assists in the social and economic integration of immigrants (45:398).

Palmach: Abbreviation for Pelugot Mahatz, shock forces.

Organized in 1941 to provide the Haganah with a mobile force, it consisted of young men who took military training while working part-time at farming, serving in cooperation with the British army, without pay or uniforms (45:401).

Peacekeeping Operations (PKO): enables the United States to participate in the multilateral operations necessary to help prevent international conflict (9:4).

Prudent-man rule: A rule that lends flexibility to a trustee in the handling of trust investments. The prudent-man rule states that when money is left in trust without specific directions for its investment, the trustees may use their own judgment in making whatever investments they feel right as long as they act in a prudent manner (21:369).

Right of return: The birth-right of a Jewish individual to choose to immigrate to Israel (45:80).

Security Assistance: includes all DOD activities carried out under the authority of the Foreign Military Sales Act or Foreign Assistance Act, or related appropriation acts and other related statutory authorities (60:615).

Security Supporting Assistance: Funds used to finance imports of commodities, capital, or technical assistance, provided either as a grant or loan in accordance with terms of a bilateral agreement; counterpart funds thereby generated may be used to enable a recipient to devote more of its own resources to defense and security purposes than it otherwise

could do without serious economic or political consequences.

A form of Economic Supporting Funds (60:615).

Zionists General Federation of Labor: Now known as the Histadrut and is a labor union which performs many economic and welfare services in addition to trade union activities (45:397).

APPENDIX B

**SELECT MAJOR ITEMS DELIVERED TO ISRAEL
UNDER FMS FROM 1971 TO AUGUST 1982**

AIRCRAFT

A-4 Skyhawks
E2C Hawkeyes
F-4/RF-4 Phantoms
F-15 Eagles
F-16 Fighting Falcons
AH-1G/S Huey Cobra Helicopters
CH-53 Sea Stallion Helicopters

GROUND FORCES

M48 Series Tanks
M60 Series Tanks
M113A1 Armored Personnel Carriers
M88A1 Tank Recovery Vehicles
M548 Cargo Carriers
M577A1 Command Post Carriers
M109 155mm Self-Propelled Howitzers
M107 175mm Self-Propelled Guns

SURFACE-TO-SURFACE MISSILE SYSTEMS

Dragon (Anti-tank) Launchers, and Dragon Missiles
TOW (Anti-tank) Launchers, and TOW Missiles

AIR DEFENSE SYSTEMS

I-HAWK Batteries, and I-HAWK Missiles
Chaparral Launchers, and Chaparral Missiles
M163 20mm Vulcan Guns
REDEYE Missiles

AIR-TO-AIR MISSILES

AIM-7 Sparrow Missiles
AIM-9 Sidewinder Missiles

AIR-TO-GROUND MISSILES

Maverick Missiles
Standard ARM Missiles
Strike ARM Missiles

SURFACE-TO-SURFACE MISSILES

Harpoon Missiles

Source: (89:16)

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